

OFFICIAL STATEMENT DATED DECEMBER 11, 2002

DAC Bond® New Issue
Book Entry Only

Ratings
Standard & Poor's: AAA
Fitch IBCA: AAA

In the opinion of Hanson, Bridgett, Marcus, Vlahos, Rudy, L.L.P., San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings, and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the 2003 Series A Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the 2003 Series A Bonds is not includable in the gross income of the owners of the 2003 Series A Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2003 Series A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporation. Interest on the 2003 Series A Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel interest on the 2003 Series A Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.



\$15,680,000
Sonoma County Water Agency
Water Revenue Bonds
2003 Series A

Dated: Date of Delivery

Maturity: July 1, as shown on the inside cover

The 2003 Series A Bonds will be issued only as fully registered bonds and when issued will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of 2003 Series A Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of the 2003 Series A Bonds will not receive physical certificates representing their interest in the 2003 Series A Bonds. See "DESCRIPTION OF THE SERIES A BONDS" and "APPENDIX H—BOOK-ENTRY SYSTEM." Interest is payable semi-annually on January 1 and July 1 of each year, commencing July 1, 2003. Principal of, premium, if any, and interest on the 2003 Series A Bonds are to be paid to purchasers by DTC through the DTC Participants (as defined herein). The 2003 Series A Bonds are subject to optional, mandatory, and special mandatory redemption prior to their stated date of maturity as described herein.

The 2003 Series A Bonds are to be issued under the Master Ordinance of the Agency originally adopted December 28, 1970, as amended and supplemented to date and as amended and supplemented by the Sixth Supplemental Ordinance adopted December 3, 2002 (collectively, the "Ordinance"). The 2003 Series A Bonds are special obligations of the Agency, payable solely from "Net Revenues" of the Agency's water transmission system (the "Transmission System"). Neither the full faith and credit nor the taxing power of the Agency is pledged to the payment of the 2003 Series A Bonds or interest thereon. The 2003 Series A Bonds are not secured by a legal or equitable pledge of, or charge, or lien, or encumbrance upon, any of the property of the Agency or any of its income or receipts, except the Net Revenues of the Transmission System and amounts on deposit in the funds and accounts established under the Ordinance as and to the extent provided in the Ordinance. See "SECURITY FOR THE SERIES A BONDS."

The 2003 Series A Bonds will be used to construct, and equip certain facilities and improvements as described herein, the funding of a reserve fund, and the payment of issuance costs.

The scheduled payment of principal of and interest on the 2003 Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2003 Series A Bonds by MBIA Insurance Corporation.



This cover page contains certain information for quick reference only. It is *not* a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

This official statement, as supplemented or corrected by the Agency from time to time, is deemed final by the Agency as of the date hereof (or of any such supplement or correction), for purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission.

The 2003 Series A Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Hanson, Bridgett, Marcus, Vlahos, Rudy, L.L.P., San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Sonoma County Water Agency by the Sonoma County Counsel and for the Underwriter by its counsel Jones Hall, A Professional Law Corporation, San Francisco, California. It is expected that the 2003 Series A Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about January 7, 2003.

Banc of America Securities LLC

Maturity Schedule
\$8,665,000* Serial Bonds

<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>CUSIP Number¹</u>	<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>CUSIP Number¹</u>
2003	\$145,000	2.000%	1.100%	835577-EF0	2014	\$415,000	4.000%	4.080%	835577-ES2
2004	310,000	2.000	1.400	835577-EG8	2015	430,000	4.125	4.230	835577-ET0
2005	315,000	2.000	1.700	835577-EH6	2016	450,000	4.250	4.350	835577-EU7
2006	320,000	2.100	2.050	835577-EJ2	2017	470,000	4.375	4.450	835577-EV5
2007	325,000	2.500	2.450	835577-EK9	2018	490,000	4.500	4.550	835577-EW3
2008	335,000	3.000	2.800	835577-EL7	2019	510,000	4.500	4.650	835577-EX1
2009	345,000	3.100	3.100	835577-EM5	2020	535,000	4.625	4.730	835577-EY9
2010	355,000	3.500	3.400	835577-EN3	2021	560,000	4.750	4.780	835577-EZ6
2011	370,000	4.000	3.600	835577-EP8	2022	585,000	4.750	4.810	835577-FA0
2012	385,000	4.000	3.750	835577-EQ6	2023	615,000	4.750	4.830	835577-FB8
2013	400,000	4.000	3.900	835577-ER4					

\$2,750,000 4.75% Term Bonds due July 1, 2027, Yield 4.880%, CUSIP Number 835577-FF9

\$4,265,000 5.00% Term Bonds due July 1, 2032, Yield 4.910%, CUSIP Number 835577-FL6

¹ Copyright 2002, American Bankers Association. CUSIP data herein is provided by Standard & Poor's Corporation, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc.

SONOMA COUNTY WATER AGENCY WATER TRANSMISSION SYSTEM



GENERAL LOCATION MAP
PREPARED BY THE
SONOMA COUNTY WATER AGENCY

No dealer, broker, salesperson or other person has been authorized by the Agency or the Underwriter to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2003 Series A Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2003 Series A Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances, create any implication that there has been no change in the affairs of the Agency or the Agency's Transmission System since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements described to be materially different from any future results, performance or achievements express or implied by such forward-looking statements. Except as specifically set forth herein, the Agency does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

The issuance and sale of the 2003 Series A Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

IN CONNECTION WITH THE OFFERING OF THE 2003 SERIES A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Official Statement
SONOMA COUNTY WATER AGENCY
2150 West College Avenue
Santa Rosa, California 95401

Organized October 1, 1949

Board of Directors

Mike Kerns, *Chairman*
Valerie Brown, *Director*
Tim Smith, *Director*
Paul Kelley, *Director*
Mike Reilly, *Director*

Agency Staff

Randy D. Poole, *General Manager/Chief Engineer*
James Jasperse, *Deputy Chief Engineer, Engineering and Resource Planning*
Pamela Jeane, *Deputy Chief Engineer, Operations and Permit Compliance*
Mike Thompson, *Deputy Chief Engineer, Maintenance*
Renee Webber, *Division Manager, Environmental Resources and Public Affairs Division*
Krishna Kumar, *Division Manager, Administrative Services Division*

Agency Officials (Ex Officio)

Steven M. Woodside, *County Counsel*
Jill Golis, *Deputy County Counsel*
Steven S. Shupe, *Deputy County Counsel*
Rodney A. Dole, *Auditor-Controller*
Thomas Ford, *Treasurer-Tax Collector*
Robert Boitano, *Assistant Treasurer*

Bond Counsel/Disclosure Counsel

Hanson, Bridgett, Marcus, Vlahos, Rudy, L.L.P., San Francisco

Financial Advisor

Fieldman, Rolapp & Associates, Irvine

Underwriter

Banc of America Securities LLC, San Francisco

Underwriter's Counsel

Jones Hall, A Professional Law Corporation, San Francisco

Trustee

Union Bank of California, San Francisco

Disclosure Dissemination Agent

Digital Assurance Certification, L.L.C.

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OFFICIAL STATEMENT

relating to

**\$15,680,000
Sonoma County Water Agency
Water Revenue Bonds
2003 Series A**

INTRODUCTION

This Official Statement, which includes the cover page and attached appendices, furnishes information with respect to the Sonoma County Water Agency Water Revenue Bonds, 2003 Series A (the "2003 Series A Bonds"). All capitalized terms used in this Official Statement, unless otherwise defined, have the same meanings as in the Ordinance (as defined below).

The Agency

The Sonoma County Water Agency ("Agency") was created in 1949 by an act of the California Legislature (the "Act"). The Act gives the Agency the authority to produce and furnish surface and groundwater for beneficial uses, to control flood water, to generate electricity, and related authority. Under the Act, the Sonoma County Board of Supervisors serves as the Board of Directors of the Agency. See "APPENDIX D - HISTORY OF SONOMA COUNTY WATER AGENCY, THE RUSSIAN RIVER WATERSHED, AND THE WATER TRANSMISSION SYSTEM".

The Transmission System

The Agency owns and operates a water Transmission System (the "Transmission System"). The Agency uses the Transmission System to divert water from the Russian River and deliver it on a wholesale basis to nine public entities in Sonoma and Marin counties. These public entities in turn supply water on a retail basis to a population of approximately 600,000. See "APPENDIX D – HISTORY OF SONOMA COUNTY WATER AGENCY, THE RUSSIAN RIVER WATERSHED AND THE WATER TRANSMISSION SYSTEM."

Purposes

Proceeds of the 2003 Series A Bonds will be used to acquire, construct and equip certain facilities and improvements known as Collector 6-Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs.

The Capital Improvement Program

In 1998, the Agency's Board of Directors approved the Water Supply and Transmission System Project ("WSTSP"). The WSTSP will expand the Agency's Transmission System to meet the growth projections set forth in the general plans of jurisdictions served by the Agency's customers through the construction of additional Ranney collector wells, aqueducts, booster stations, and water storage facilities. In January 2001, the Agency and eight of its primary customers (the "Prime Contractors") entered into the Eleventh Amended Agreement for Water Supply ("Eleventh Amended Agreement"). The Eleventh Amended Agreement authorizes the Agency to construct and finance WSTSP facilities. The facilities to be constructed with 2003 Series A Bond proceeds are part of the WSTSP. See "APPENDIX E - WATER TRANSMISSION SYSTEM CAPITAL IMPROVEMENT PROJECTS."

Authority for the 2003 Series A Bonds

The Agency is issuing the 2003 Series A Bonds pursuant to the Act and pursuant to a Sixth Supplemental Ordinance dated as of December 3, 2002, and a Master Ordinance adopted on December 28, 1970, as amended to date (the "Master Ordinance"). The Sixth Supplemental Ordinance relates to the 2003 Series A Bonds and amends the Master Ordinance to consolidate the various supplemental ordinances, each relating to a previously-issued series of Bonds, and to make certain minor technical modifications, as previously supplemented and amended. The Sixth Supplemental Ordinance and the Master Ordinance are referred to herein collectively as the "Ordinance." The Act provides that revenue bonds may be authorized by ordinance adopted by not less than 4/5 of the members of the Board of Directors.

Bond Terms; Book-Entry System

The 2003 Series A Bonds will be dated their date of delivery, and will bear interest at the annual rates set forth on the inside cover page of this Official Statement. Interest on the 2003 Series A Bonds will be payable on January 1 and July 1 of each year, commencing July 1, 2003. See "Description of the 2003 Series A Bonds."

The 2003 Series A Bonds are being issued in fully registered form and, when issued, will be registered in the name of the nominee for The Depository Trust Company. Individual purchases and sales of the 2003 Series A Bonds will be made in book-entry form only in denominations of \$5,000 and integral multiples of \$5,000. PURCHASERS WILL NOT RECEIVE PHYSICAL CERTIFICATES REPRESENTING THEIR INTEREST IN THE SERIES A BONDS. See "APPENDIX H – BOOK-ENTRY SYSTEM."

Redemption

The 2003 Series A Bonds are subject to special mandatory, optional, and mandatory sinking fund redemption prior to maturity. See "THE 2003 SERIES A BONDS – Optional Redemption," "THE 2003 SERIES A BONDS – Mandatory Sinking Fund Redemption," "THE 2003 SERIES A BONDS – Redemption from Net Proceeds of Insurance or Condemnation."

Security for the 2003 Series A Bonds

The 2003 Series A Bonds are special obligations of the Agency, payable solely from "Net Revenues" of the Agency's Transmission System, and amounts on deposit in the funds and accounts established under the Ordinance as and to the extent provided in the Ordinance. Neither the full faith and credit nor the taxing power of the Agency is pledged to the payment of the 2003 Series A Bonds or interest thereon. The 2003 Series A Bonds are not secured by a legal or equitable pledge of, or charge, or lien, or encumbrance upon, any of the property of the Agency or any of its income or receipts, except the Net Revenues of the Transmission System.

Rate Covenant

The Agency shall fix, prescribe, revise, and collect charges for the Transmission System during each Fiscal Year, which are sufficient to yield Net Revenues of at least 115% of Debt Service on the 2003 Series A Bonds and Parity Obligations (hereafter defined) in such Fiscal Year. See "SECURITY FOR THE 2003 SERIES A BONDS – Rate Covenant."

Bond Reserve Accounts

A Reserve Account will be established from the 2003 Series A Bond proceeds or, in the alternative by a Qualified Surety Bond and will be held and maintained by the Trustee. If the balance in the Reserve Account is less than the Reserve Requirement, the Agency shall restore the deficiency by transfers to the Trustee for deposit to the Reserve Account from the first moneys which become available in the Agency Fund (after payment of Maintenance and Operation Costs and Debt Service). See "SECURITY FOR THE 2003 SERIES A BONDS – Reserve Account."

Bond Insurance Policies

The Bond Insurer has also issued a commitment to issue, simultaneously with the delivery of the 2003 Series A Bonds, a municipal bond insurance policy (a "Policy"), effective as of the date of delivery of the 2003 Series A Bonds, that will insure the payment of principal of interest on the 2003 Series A Bonds. See "BOND INSURANCE."

Issuance of Additional Debt

The Ordinance provides for the issuance of additional Series of Bonds secured on a parity with the 2003 Series A Bonds ("Parity Obligations") provided that certain requirements are met. See "SECURITY FOR THE SERIES A BONDS – Issuance of Parity Obligations."

THE 2003 SERIES A BONDS

Description of the 2003 Series A Bonds

Name: \$15,680,000 Sonoma County Water Agency
Water Revenue Bonds
2003 Series A

Dated: Date of Delivery

Denomination: \$5,000 or multiple thereof.

Maturities: July 1, 2003, through 2023, 2027 and 2032.

Interest: Interest is payable January 1 and July 1 of each year to the respective dates of maturity of the 2003 Series A Bonds beginning July 1, 2003. Interest shall be based on a 360-day year comprised of twelve 30-day months.

Registration: Fully Registered Form

Payment

The 2003 Series A Bonds will be executed, sold, and delivered in fully registered form, without coupons. The 2003 Series A Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company ("DTC"), New York, New York, as the initial securities depository for the 2003 Series A Bonds. Ownership interests in the 2003 Series A Bonds may be purchased in book-entry form only. Purchasers of the 2003 Series A Bonds will not receive Bonds representing their ownership interests in the 2003 Series A Bonds purchased. Principal and interest payments with respect to the 2003 Series A Bonds are payable directly to DTC by the trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2003 Series A Bonds. See "APPENDIX H-BOOK-ENTRY SYSTEM."

Optional Redemption

The 2003 Series A Bonds maturing on or after July 1, 2013, are subject to redemption prior to their respective maturity dates, at the option of the Agency, as a whole or in part on any Business Day, in any order directed by the Agency, and if the Agency fails to direct the order, pro rata among maturities, and by lot within a maturity, on any Business Day on or after July 1, 2012, from any source of available funds, at the principal amount of the 2003 Series A Bonds to be redeemed, together with premium (expressed as a percentage of the principal amount of 2003 Series A Bonds to be redeemed) for the following plus accrued interest thereon to the date of redemption:

Redemption Date	Premium
July 1, 2012, through June 30, 2013	101.0%
July 1, 2013, through June 30, 2014	100.5%
July 1, 2014, and thereafter	100.0%

Mandatory Sinking Fund Redemption

The 2003 Series A Bonds maturing on July 1 in the years 2027 and 2032 shall be subject to mandatory sinking fund redemption prior to maturity in part at a redemption price of 100% of the principal amount thereof (without premium) plus accrued interest to the date fixed for redemption, on July 1 of the years 2024 through 2027, inclusive (for 2003 Series A Term Bonds maturing on July 1, 2027), and on July 1 of the years 2028 through 2032, inclusive (for 2003 Series A Term Bonds maturing on July 1, 2032) and in the amounts set forth below:

2003 Series A Term Bond Maturing July 1, 2027

Year	Principal Amount
2024	\$640,000
2025	670,000
2026	705,000
2027*	735,000

*Scheduled maturity

2003 Series A Term Bond Maturing July 1, 2032

Year	Principal Amount
2028	\$770,000
2029	810,000
2030	850,000
2031	895,000
2032*	940,000

*Scheduled maturity

Redemption from Net Proceeds of Insurance or Condemnation

The 2003 Series A Bonds are subject to special mandatory redemption in part or in whole on any date from the net proceeds of hazard insurance or condemnation awards, at a redemption price equal to principal amount to be redeemed without premium, plus accrued interest to the redemption date.

Purpose of the 2003 Series A Bonds

Proceeds of the 2003 Series A Bonds will be used to construct and equip certain facilities and improvements known as Collector 6-Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs. The facilities constructed with 2003 Series A Bond proceeds are part of the WSTSP. See "APPENDIX E - WATER TRANSMISSION SYSTEM CAPITAL IMPROVEMENT PROJECTS."

Outstanding Parity Debt

As of the date of this Official Statement, the outstanding debt of the Agency consists of (a) the obligation of the Agency to make payments to the State under the loan agreement memorializing said loan (the "State Loan"), and (b) its 1971 Revenue Bonds, Series 1993A Refunding Revenue Bonds. See "AGENCY'S WATER TRANSMISSION SYSTEM ENTERPRISE FUND FINANCIAL INFORMATION - Outstanding Indebtedness," herein.

Prior to or concurrent with the delivery of the 2003 Series A Bonds, the Agency will deposit cash with the Trustee of its Outstanding 1971 Revenue Bonds, Series 1993A Refunding Revenue Bonds sufficient to defease such Bonds maturing on February 1, 2003. Accordingly, upon their issuance, the 2003 Series A Bonds and the State Loan will be the only obligations of the Agency payable from Net Revenues. The State Loan and the 2003 Series A Bonds are Parity Obligations.

Sources and Uses

The following table sets forth the sources and uses of the 2003 Series A Bonds.

Sources

Bond Proceeds	\$15,680,000.00
Less Net Original Issue Discount	<u>(29,768.80)</u>
Total Sources.....	<u>\$15,650,231.20</u>

Uses

Construction Fund	\$14,226,087.89
Reserve Account.....	988,087.50
Costs of issuance	249,278.36
Underwriter discount	117,600.00
Bond Insurance Premium (23.8 bps)	<u>69,177.45</u>
Total uses.....	<u>\$15,650,231.20</u>

Debt Service Schedule

The following table shows the aggregate principal and interest payments for the State Loan and the 2003 Series A Bonds for each calendar year.

**Sonoma County Water Agency
Parity Obligations
Debt Service**

Fiscal Year Ending June 30	2003 Series A Bonds Principal and Interest	State Loan Principal, Interest, and Reserve¹	Fiscal Year Ending June 30 Total
2004	\$813,061.11	\$1,150,995.00	\$1,964,056.11
2005	984,858.76	1,150,995.00	2,135,853.76
2006	983,608.76	1,150,995.00	2,134,603.76
2007	982,098.76	1,150,995.00	2,133,093.76
2008	979,676.26	1,150,995.00	2,130,671.26
2009	980,588.76	1,150,995.00	2,131,583.76
2010	980,216.26	1,150,995.00	2,131,211.26
2011	978,656.26	1,150,995.00	2,129,651.26
2012	980,043.76	1,150,995.00	2,131,038.76
2013	979,943.76	1,150,995.00	2,130,938.76
2014	979,243.76	1,040,354.52	2,019,598.28
2015	977,943.76	1,040,354.52	2,018,298.28
2016	975,775.01	1,040,354.52	2,016,129.53
2017	977,343.76	1,040,354.52	2,017,698.28
2018	977,500.01	1,040,354.52	2,017,854.53
2019	976,193.76	1,040,354.52	2,016,548.28
2020	973,693.76	1,040,354.52	2,014,048.28
2021	974,846.88	1,040,354.52	2,015,201.40
2022	974,175.00	1,040,354.52	2,014,529.52
2023	971,981.25	1,040,354.52	2,012,335.77
2024	973,481.25	1,040,354.52	2,013,835.77
2025	968,675.00	--	968,675.00
2026	967,562.50	--	967,562.50
2027	969,906.25	--	969,906.25
2028	965,706.25	--	965,706.25
2029	964,000.00	--	964,000.00
2030	964,500.00	--	964,500.00
2031	963,000.00	--	963,000.00
2032	964,375.00	--	964,375.00
2033	963,500.00	--	963,500.00
Total		--	\$52,020,005.37

¹ Debt service is required to begin one year from completion of construction. It is estimated that debt service will commence during Fiscal Year 2004. Debt Service includes a reserve to be funded over ten Fiscal Years in equal annual installments of approximately \$110,640.48.

SECURITY FOR THE 2003 SERIES A BONDS

The 2003 Series A Bonds are special obligations of the Agency, payable solely from Net Revenues of the Agency's Transmission System and from amounts on deposit in the funds and accounts established under the Ordinance as and to the extent provided in the Ordinance. Neither the full faith and credit nor the taxing power of the Agency is pledged to the payment of the 2003 Series A Bonds or interest thereon. The 2003 Series A Bonds are not secured by a legal or equitable pledge of, or charge, or lien, or encumbrance upon, any of the property of the Agency or any of its income or receipts, except the Net Revenues of the Transmission System and the amounts on deposit under the Ordinance to the extent provided in the Ordinance.

The Ordinance defines "Revenues," "Gross Revenues," and "Revenues of the Transmission System" as all charges received for, and all other income and receipts derived by the Agency from, the ownership or operation of the Transmission System, or arising from the Transmission System, including income derived from the sale or use of water or charges or rentals for capacity in any facilities of the Transmission System, together with any receipts derived from the sale of any property pertaining to the Transmission System or incidental to the operation of the Transmission System (including the sale of electrical power), receipts derived from the investment of funds held by the Agency or the Trustee under this Ordinance, or from any services performed by the Agency in connection with or incidental to the Transmission System, or from any other

source whatsoever directly or indirectly derived from the Transmission System including Capital Charges and Maintenance and Operation Charges relating to the Transmission System received from any Water Contractor under any Agreement, but exclusive in every case (1) of any moneys derived from the levy or collection of taxes upon any taxable property in the Agency, (2) of capital cost cash payments and interest thereon received by the Agency from North Marin Water District, pursuant to Section 4.8 of the Eleventh Amended Agreement, (3) of other capital cost cash payments and interest thereon received by the Agency in connection with the future expansion of the Transmission System and which are made to pay all or a pro rata portion of such expansion and are in lieu of periodic payments for water which would amortize the capital cost of such improvements pursuant to an Agreement, (4) of any monies derived pursuant to Section 4.17 of the Eleventh Amended Agreement, (5) of any monies derived pursuant to the Supplemental Agreement with respect to the Russian River Conservation Charge and the Russian River Project Charge, (6) of any moneys received from Marin Municipal Water District for firm water supply pursuant to Section 8 of Exhibit B of the Supplemental Agreement, and (7) of any monies received under any Agreement with respect to the Russian River Project.

The Ordinance defines "Maintenance and Operation Costs", when used with respect to the Transmission System, as the reasonable and necessary costs of and charges for maintenance and operation of the Transmission System, but only if said costs and charges are in conformity with generally accepted accounting principles, and exclusive in all cases of depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, and also exclusive of all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the Agency.

Such Maintenance and Operation Costs of the Transmission System include (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Transmission System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs.

Said term does not include costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to or retirements from the Transmission System, which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and does not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Agency nor such property items which are capitalized pursuant to the then existing accounting practice of the Agency.

The Ordinance defines "Net Revenues" with respect to the Transmission System as, for any period of computation, the amount of the Gross Revenues received from the Transmission System during such period, less the amount of Maintenance and Operation Costs of the Transmission System becoming payable during such period.

Flow of Funds

In the Ordinance, the Agency covenants to fix, prescribe, revise and collect charges for the Transmission System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (i) all Maintenance and Operation Costs of the Transmission System estimated by the Agency to become due and payable in such Fiscal Year;
- (ii) the Debt Service on the 2003 Series A Bonds and the Parity Obligations;
- (iii) all other payments required for compliance with the Ordinance and the Parity Obligation Instruments pursuant to which any Parity Obligations relating to the Transmission System shall have been issued;
- (iv) the Debt Service on the Subordinate Obligations;
- (v) any other payments required for compliance pursuant to the Subordinate Obligation Instruments relating to the Transmission System; and
- (vi) all payments required to meet any other obligations or Indebtedness of the Agency which are charges, liens, encumbrances upon or payable from the Net Revenues of the Transmission System.

Revenue Bond Coverage Rate Covenant

The Agency shall fix, prescribe, revise, and collect rates and charges for the Transmission System during each Fiscal Year which are sufficient to yield Net Revenues equal to at least 115% of the Debt Service on the 2003 Series A Bonds and any Parity Obligations in such Fiscal Year.

Reserve Account

Pursuant to the Ordinance, a Reserve Account will be established to secure the 2003 Series A Bonds in the amount of the Reserve Requirement. The Reserve Requirement is an amount equal to the lesser of Maximum Annual Debt Service on the 2003 Series A Bonds, 10% of the principal amount of the 2003 Series A Bonds, or 125% of Average Annual Debt Service on the 2003 Series A Bonds. The Reserve Requirement for an issue of Parity Obligations may, but need not be, increased by any Parity Obligations Instrument establishing the terms and conditions of any Parity Obligations. To the extent the Reserve Requirement is funded by a Qualified Surety Bond, the Reserve Account shall only secure the 2003 Series A Bonds. Notwithstanding the above, as provided in any Supplemental Ordinance, any Series of Parity Obligations secured by a Reserve Account funded with cash and investments may be held and invested in a common account with any other Series funded with cash and investments for the equal and ratable benefit, *pari passu* of all Series so secured. The Reserve Fund Requirement for such common account shall be calculated with respect to all Series in the common account as the minimum Reserve Fund Requirement of any Series so secured.

If the balance in the Reserve Account exceeds the Reserve Requirement, the Trustee will transfer the excess to the Agency Fund at least semiannually. If the balance in the Reserve Account is less than the Reserve Requirement, the Agency shall restore the deficiency by transfers from the Agency Fund to the Trustee for deposit to the Reserve Account of the first moneys which become available (after payment of Maintenance and Operation Costs and Debt Service).

The Agency may satisfy the Reserve Requirement by delivering to the Trustee a Qualified Surety Bond, as described and defined in the Ordinance. The Trustee is entitled to draw upon the Surety Bond when required to make transfers from the Reserve Account to the Debt Service Fund.

Issuance of Parity Obligations

In addition to the 2003 Series A Bonds, the Agency may, by Parity Obligations Instrument, issue or incur Parity Obligations payable from Net Revenues to be derived from the Transmission System, subject to the following conditions precedent to the issuance and delivery of such Parity Obligations:

- I. The Agency is in compliance with all covenants set forth in the Ordinance.
- II. The Net Revenues of the Transmission System for the latest Fiscal Year or any more recent twelve (12) month period selected by the Agency ending not more than sixty (60) days prior to the adoption of the Parity Obligations Instrument pursuant to which such Parity Obligations are issued plus, at the option of the Agency, any or all of the items designated (i), (ii), and (iii), are at least equal to One Hundred Fifteen percent (115%) of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Parity Obligations to be Outstanding immediately subsequent to the issuance of such Parity Obligations which have a lien on Net Revenues of the Transmission System. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Obligations are the following:
 - (i) An allowance for Net Revenues from Capital Charges relating to the Transmission System assessed by the Agency during any part of such Fiscal Year or such twelve (12) month period;
 - (ii) An allowance for earnings arising from any increase in the Maintenance and Operation Charges relating to the Transmission System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Maintenance and Operation Charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown in the written report of an Independent Consultant engaged by the Agency; and
 - (iii) An allowance from any increase in Capital Charges, Maintenance and Operation Charges or other Charges assessed by the Agency and relating to the Transmission System under any Agreement or other contract between the Agency and any Water Contractor during any part of such Fiscal Year or such twelve (12) month period.

The Parity Obligations Instrument providing for the issuance of such Parity Obligations under the Ordinance will provide that:

- (i) The proceeds of such Parity Obligations will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Transmission System, or otherwise for facilities, improvements or property which the Agency determines

are of benefit to the Transmission System, or for the purpose of refunding any Obligations in whole or in part, including all costs (including costs of issuing such Parity Obligations and including capitalized interest on such Parity Obligations during any period which the Agency deems necessary or advisable) relating thereto;

- (ii) Money or a Qualified Surety Bond as authorized by the Ordinance may, but need not, be deposited in a Reserve Account for such Parity Obligations from the proceeds of the sale of such Parity Obligations or otherwise equal to the Reserve Requirement; provided however, the Reserve Account shall only secure the Series of Parity Obligations in the related Parity Obligations Instrument.

BOND INSURANCE

The scheduled payment of principal of and interest on the 2003 Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2003 Series A Bonds by MBIA Insurance Corporation ("MBIA").

With respect to any and all 2003 Series A Bonds determined by the Underwriter at pricing to be insured by MBIA, the following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix I for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Agency to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2003 Series A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the 2003 Series A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2003 Series A Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2003 Series A Bonds upon tender by an Owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the 2003 Series A Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other Trustee for the 2003 Series A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any Owner of a 2003 Series A Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2003 Series A Bonds or presentment of such other proof of ownership of the 2003 Series A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2003 Series A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such Owners of the 2003 Series A Bonds in any legal proceeding related to payment of insured amounts on the 2003 Series A Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such Owners of the Trustee payment of the insured amounts due on such 2003 Series A Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Island, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and

transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility of the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the headings "BOND INSURANCE" and "SECURITY FOR THE 2003 SERIES A BONDS - Qualified Surety Bond." Additionally, MBIA makes no representation regarding the 2003 Series A Bonds or the advisability of investing in the 2003 Series A Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company's Quarterly Report on form 10-Q for the quarter ended June 30, 2002.

Any documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the 2003 Series A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special report, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002), are available (i) over the Internet at the SEC's website at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's website at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2002, MBIA had admitted assets of \$8.7 billion (unaudited), total liabilities of \$5.7 billion (unaudited), and total capital and surplus of \$3.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a Division of McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2003 Series A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2003 Series A Bonds. MBIA does not guaranty the market price the 2003 Series A Bonds nor does it guaranty that the ratings on the 2003 Series A Bonds nor does it guaranty that the ratings on the 2003 Series A Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) or Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

THE AGENCY AND THE TRANSMISSION SYSTEM

Management and Operation

The Board of Supervisors of the County of Sonoma is, ex officio, the Board of Directors of the Agency (the "Board"). The County Administrator, County Clerk, County Assessor, County Treasurer-Tax Collector, County Auditor-Controller, County Counsel, and County Purchasing Agent are, unless otherwise provided by the Board, ex officio such officers of the Agency. The General Manager/Chief Engineer, who serves at the pleasure of the Board, administers the Agency.

Subject to the determination of policy by the Board, all activities and functions of the Agency are planned, organized, directed and controlled by the **General Manager/Chief Engineer, Randy D. Poole**. Mr. Poole is an agricultural engineering graduate of Oregon State University and has been with the Agency since 1991. Prior to that he was Manager of Engineering/Assistant General Manager of the Marin Municipal Water District. He is a registered civil engineer in the State of California.

Three Deputy Chief Engineers and two Division Managers overseeing the areas of Operations, Maintenance, Engineering, Environmental Resources and Administrative Services, respectively, assist Mr. Poole. A brief description of each of the current incumbents is given below.

Pamela Jeane, Deputy Chief Engineer of Operations. Ms. Jeane is responsible for the continuous operation and permitting of the Agency's potable water and sanitation facilities. Ms. Jeane completed her bachelor's degree in Civil Engineering at California State University at Chico and upon graduation, worked overseas for two years. She has been with the Agency since 1991 and is a registered Civil Engineer in the State of California.

Michael Thompson, Deputy Chief Engineer. Mr. Thompson manages the maintenance of the Agency's water supply and Transmission System, flood control channels, and wastewater collection and treatment systems. Mr. Thompson, a registered civil engineer, has been with the Agency since 1995. Prior to joining the Agency, he worked as an environmental engineering consultant specializing in the investigation and remediation of contaminated properties. Mr. Thompson received a bachelor's degree in Civil Engineering from Cal Poly, San Luis Obispo and master's degrees in Civil Engineering and Administration from the University of California at Davis.

James Jasperse, Deputy Chief Engineer. Mr. Jasperse is a registered civil engineer and manages the engineering, planning and resources division of the Agency and has been with the Agency since 1998. Prior to joining the Agency, he worked as an environmental engineering consultant specializing in groundwater characterization and design of remediation systems. Mr. Jasperse received a Bachelor of Science degree in Geology from the University of California at Davis and master's degree in civil engineering from the University of California at Berkeley. Mr. Jasperse is an active member of the National Groundwater Association and the American Chemical Society.

Renee Theriault Webber Manager, Environmental Resources and Public Affairs Division. Ms. Webber began working for the Agency in 1984. Her educational background includes a degree in Environmental Studies with a specialized minor in Water Resources. Ms. Webber oversees the work of the Natural Resources, Environmental Compliance, Endangered Species Act Compliance, Water Conservation, Public Information, Water Education, and Governmental Affairs sections of the Agency, under the direction of the Agency's General Manager/Chief Engineer. Ms. Webber is a member of the Association of Environmental Professionals.

Krishna Kumar, Division Manager, Administrative Services Division. Mr. Kumar has day-to-day responsibility for managing the administrative and financial functions of the Agency. Mr. Kumar completed his master's degree in Business Administration at the Cochin University of Science and Technology, India. Mr. Kumar was employed by the Agency in 1998. Prior to working for the Agency, Mr. Kumar worked for various departments of the County of Sonoma. Mr. Kumar is a member of the Government Finance Officers Association of the United States & Canada, and a member of the Finance Committee of the Association of California Water Agencies.

Employees

The Agency has a staff of 207 permanent employees. All but 40 of such employees are represented by one of three labor organizations, depending on job classification. (No formal bargaining unit represents the 36 management positions and four confidential positions.) The Service Employees International Union, Local 707, representing 89 employees of the Agency, has a contractual arrangement with the Agency effective on July 23, 2002 and which expires on June 30, 2008. The International Union of Operating Engineers, Stationary Engineers, Local 39, represents 62 employees of the Agency and has a contractual arrangement with the Agency which was effective on September 19, 2000 and which expires on September 15, 2003. The Western Council of Engineers represents 16 employees of the Agency and has a contractual arrangement with the Agency which was effective on October 3, 2000 and which expires on September 29, 2003.

The Agency's Water Supply Sources and Water Rights

The diversions of water from the Russian River at the Agency's facilities at Wohler and Mirabel are made under water rights issued by the State Water Resources Control Board ("SWRCB"). The various water rights held by the Agency allow the Agency to divert water from the Russian River, and to store water in Lake Mendocino and Lake Sonoma and release that water for rediversion. The permits require the Agency to maintain certain minimum flows in the Russian River and Dry Creek, as set forth in SWRCB Decision 1610, adopted on April 17, 1986. The Agency's various water rights permits have separate diversion limits; however, the total combined direct diversion and re-diversion under the permits are currently limited to 180 cubic feet per second ("cfs") (116.3 million gallons per day "mgd") and 75,000 acre-feet per water year ("AFY") (October 1 to September 30).

The Agency's water rights are subject to (1) riparian rights, (2) the rights of pre-1949 appropriators to the natural flow of the Russian River (as augmented by diversions from PG&E's Potter Valley Project), and (3) reservations of Lake Mendocino water in the amounts of 8,000 acre-feet per year for use in portions of Mendocino County and 10,000 AFY for use in the Russian River basin in Sonoma County.

The Agency has applied for a permit to add as points of diversion seven new conventional wells at Wohler/Mirabel, which are referred to as the Russian River Well Field. The Agency also has filed petitions with the SWRCB to add Collector No. 6 (currently under construction), as a new point of diversion. These petitions are pending.

In 1999, the Agency filed applications and petitions with the SWRCB to implement the WSTSP. The filings seek a new appropriative water right permit for the direct diversion of 72 cfs of Russian River water at the Agency's existing intakes at Wohler and Mirabel, and a revised combined limit for diversion and rediversion of 101,000 AFY at a rate of 252 cfs under existing permits and the new permit. Protests to the Agency's petitions have been filed with the SWRCB by the Mendocino County Russian River Flood Control and Water Conservation Improvement District, the National Marine Fisheries Service and Friends of the Eel River et al. Although protests to water rights petitions are routinely filed with the SWRCB, unless the protests are resolved by the Agency and the protesting party, the SWRCB will hold a hearing before acting on the Agency's petitions. The SWRCB typically will not set a hearing date until requested by the applicant to do so. The Agency anticipates that no hearing will be held on its pending water rights petitions until after conclusion of the pending consultation process under Section 7 of the federal Endangered Species Act. See "REGULATORY MATTERS – THE ENDANGERED SPECIES ACT CONSULTATION."

Reliability of Water Supply

In its Urban Water Management Plan 2000, the Agency analyzed the reliability of the water supply used by the Transmission System. The Agency's analysis was based upon computer-based hydrological "water balance" models, which take into account the flows into and the diversions out of the Russian River, and the flows required by Decision 1610. The analysis simulated three different historic hydrological periods: an average water year, a single extremely dry water year, and three consecutive dry water years. The Urban Water Management Plan 2000 also estimated the total demands on the Transmission System up to the year 2020. The tables below show the estimated total available supply in the three hydrological periods and the estimated demands, from the Urban Water Management Plan 2000 analysis:

Estimated Water Supply and Demand (acre-feet per year)

	2000	2005	2010	2015	2020
Average Water Year Supply	215,945	214,945	213,945	212,945	211,945
Multiple Dry Year Water Supply	130,885	129,885	128,885	127,885	126,885
Single Dry Year Water Supply	90,995	89,995	88,995	87,995	86,995
Total Transmission System Demands	60,692	70,070	79,960	82,774	84,791

Note: Supply figures decrease by 1,000 acre-feet per five years due to sedimentation of Lake Pillsbury, Lake Mendocino, and Lake Sonoma.

Source: Urban Water Management Plan 2000, Tables 5-1, 5-2, and 5-3. Estimates of the demands on the Transmission System set forth in the Urban Water Management Plan may not match those made for purposes of estimating future Agency revenues. The estimates made for purposes of determining future revenues were intentionally more conservative than the estimates in the Urban Water Management Plan.

As noted in this table, through 2020 water supply available to the Agency for delivery through the Transmission System is greater than estimated Transmission System demands in each type of hydrological period.

Water Quality

Public water systems in California – including the Agency and its customers – must meet primary and secondary water quality standards promulgated by the California Department of Health Services ("DHS"). The Agency operates the Transmission System under a permit from DHS, and is in compliance with the terms of that permit. The water supplied by the Transmission System has consistently met all DHS standards.

The alluvial aquifer under and next to the Russian River from which the Agency extracts water acts as a filter, producing water that meets and exceeds water quality standards for potable use. The filtration process, referred to as natural filtration, consists of physical, biological, and chemical mechanisms that work together to purify water as it travels down and through the alluvial aquifer. The natural filtration process allows the Agency to divert and transmit water without subjecting it to the treatment processes that would be required for diversions of surface water.

The Agency has conducted or commissioned numerous tests and studies on the quality of the water produced by the Transmission System over the past 40 years. These include (1) annual reports to DHS on the quality of water produced by the Transmission System; (2) a Drinking Water Source Assessment, submitted to DHS in October 2001; (3) measurements of the thickness of the alluvial aquifer over time (showing the thickness as remaining stable); (4) the Russian River Demonstration Project, completed in 1993 (which evaluated the effectiveness of the aquifer's natural filtration compared with a water treatment plant); (5) the Russian River Caisson 5 Water Quality Evaluation completed in 1998; (6) testing pursuant to the U.S. EPA's Information Collection Rule (providing EPA with information regarding microbial contaminants and disinfection by-products); (7) testing required by the U.S. EPA's Unregulated Contaminant Monitoring Regulation ("UCMR"); (8) testing required by DHS that is similar to the testing required by UCMR. These tests and studies consistently show that the water supplied by the Transmission System meets all regulatory quality standards. See "REGULATORY MATTERS."

The Agency's Customers

The Agency supplies water to its customers primarily under two agreements: The Eleventh Amended Agreement for Water Supply, dated January 26, 2001, among the Agency and its eight primary Prime Contractors (the Cities of Santa Rosa, Rohnert Park, Petaluma, Sonoma, and Cotati, and the Valley of the Moon Water District, Forestville Water District, and North Marin Water District) (the "Prime Contractors"), and the Supplemental Water Supply Agreement, dated January 25th, 1996, between the Agency and the Marin Municipal Water District. The Eleventh Amended Agreement extends until June 30, 2036, or until all Revenue Bond Obligations are paid. The Agency also supplies small amounts of water from the Transmission System to other entities pursuant to separate agreements. See "Water Transmission System Budget, Rates and Charges."

Only Marin Municipal Water District has a significant alternative source of water. The others may have some groundwater resources available; the total local supply available to all of the Water Contractors combined is estimated to be approximately 12 mgd. The Water Contractors rely on the Agency for most of their water supply.

The following table shows average deliveries to the Agency's customers over the past five fiscal years (FY 1997-98 to FY 2001-02), the maximum delivery limit of each customer (assuming buildout of all WSTSP facilities), and the agreement under which the Agency supplies water to each customer.

Customer	Average Annual Deliveries Over Past 5 Fiscal Years	Maximum Delivery Limit (average daily and annual)	Agreement
City of Santa Rosa	22,867 AF	56.6 mgd/29,100 AF	11th Amended Agreement
City of Petaluma	9,848 AF	21.8 mgd/13,400 AF	11th Amended Agreement
North Marin Water District	8,353 AF	19.9 mgd/14,100 AF	11th Amended Agreement
Marin Municipal Water District	7,864 AF	12.8mgd (summer)/9,300 AF (see Note 1)	Supplemental Water Supply Agreement
City of Rohnert Park	2,881 AF	15.0 mgd/7,500 AF	11th Amended Agreement
Valley of the Moon Water District	2,860 AF	8.5 mgd/3,200 AF	11th Amended Agreement
City of Sonoma	2,425 AF	6.3 mgd/3,000 AF	11th Amended Agreement
City of Cotati	699 AF	3.8 mgd/1,520 AF	11th Amended Agreement
Cal-American Water Company (Larkfield)	486 AF	See Note 2	Other
Forestville Water District	478 AF	1.5 mgd/no annual limit	11th Amended Agreement
Town of Windsor	355 AF	See Note 2	Other
Other Customers	651 AF	See Note 2	Other

Notes: (1) MMWD has the option to purchase an additional 5,000 of annual firm supply before July 1, 2005. (2) Under the 11th Amended Agreement, the total deliveries to Cal-American (Larkfield), Windsor, and all other customers cannot exceed an average of 2.7 mgd in any month.

The Eleventh Amended Agreement for Water Supply

Under the Eleventh Amended Agreement, the Agency is authorized to construct WSTSP facilities and to deliver water to the Water Contractors in amounts not greater than the limits set forth above.

The Eleventh Amended Agreement authorizes the Agency to assess various charges against the Prime Contractors for water delivered by the Agency through the Transmission System. The Agency may also assess specific aqueduct revenue bond charges ("Capital Charges") against the Prime Contractors (except, in some instances, North Marin, as discussed below) to generate revenue sufficient to pay the Agency's revenue bond obligations with respect to aqueduct facilities. Only those entities benefiting from an aqueduct would pay Capital Charges relating to that aqueduct. Similarly, Capital Charges from common facilities revenue bond charges and storage facility revenue bond charges may be assessed against the Prime Contractors to generate revenues sufficient to pay the Agency's revenue bond obligations with respect to common facilities and storage facilities. All parties pay storage charges except North Marin Water District. The respective share of each Prime Contractor for the capital cost of each facility to be constructed by the Agency is specified in the Eleventh Amended Agreement. Finally, the Agency may assess a Maintenance and Operation Charge (a uniform per acre foot charge paid by all Agency customers) in an amount sufficient to produce water sale revenue to cover the Agency's Transmission System Maintenance and Operation Costs, plus a prudent reserve as approved by the Water Contractors' Advisory Committee. Under the Eleventh Amended Agreement, North Marin Water District has the option of paying cash in advance to finance its share of the Capital Charges of facilities. The Eleventh Amended Agreement obligates the Prime Contractors to pay charges necessary to meet the Agency's revenue bond obligations notwithstanding any deficiency in the quality or quantity of water to which the Prime Contractors would be entitled thereunder.

If one or more Prime Contractors failed to pay for water delivered by the Agency, the Agency's Board of Directors could decide to suspend water deliveries to the defaulting parties or to continue to deliver water and seek recovery of charges owed by the contractors through litigation. Any deficiency in the amount of revenues collected by the Agency in a particular year would be offset by Transmission System reserve funds. Because the Eleventh Amended Agreement permits (and the Agency's Ordinance requires) the Agency to assess water charges for the next Fiscal Year in an amount necessary to permit the Agency to generate revenues sufficient to meet the Agency's operations and maintenance costs and revenue bond obligations for that year, water charges for the next fiscal year would be set to ensure the collection of sufficient revenues from the non-defaulting Prime Contractors to meet such costs and obligations. The Eleventh Amended Agreement expressly provides that it is the intention of the parties to the Agreement that the charges assessed by the Agency under agreement "will be sufficient to pay the Revenue Bonds and to meet the Revenue Bond obligations not met from other sources of funds."

Procedure for Setting Charges under the Eleventh Amended Agreement

The Eleventh Amended Agreement requires that the Maintenance and Operation Charges and Capital Charges for the ensuing Fiscal Year be established on or before April 30. By February 1 of each year the Agency must submit to the Prime Contractors a preliminary budget report for the next Fiscal Year for the Transmission System. For purposes of establishing the charges imposed on the Prime Contractors in the next Fiscal Year, the Eleventh Amended Agreement requires that the

Agency assume that the quantity of water to be delivered from each aqueduct of the Transmission System will be the same amount of water delivered during the 12 months preceding the establishment of rates, or the average annual amount of water delivered during the preceding 36 months, whichever is less.

The Eleventh Amended Agreement requires that the Agency set the Maintenance and Operation Charge at an amount sufficient to produce revenues to cover the Agency's estimate of Maintenance and Operation Costs for the next Fiscal Year, including a reasonable allowance for contingencies, and to accumulate a prudent reserve as determined by the Water Contractors' Advisory Committee. The Maintenance and Operation Charge may also be set to produce additional revenues to pay the Capital Charges of common or storage facilities, as determined by the Water Contractors' Advisory Committee. The Capital Charges for aqueduct, common, and storage facilities must be set to produce revenues sufficient to meet the Agency's revenue bond obligations with respect to bonds issued to construct such facilities.

The Supplemental Water Supply Agreement

The Agency's water sales to Marin Municipal Water District ("MMWD") are governed by two agreements, last amended in January 1996 and collectively referred to as the "Supplemental Water Supply Agreement." The Agency's obligation to deliver water is contingent on the Transmission System capacity. The two agreements are: (1) the Third Amended Offpeak Water Supply Agreement (the "Offpeak Agreement") originally entered into in 1975, authorizing delivery of 4,300 AFY at a delivery rate limited to 3.8 mgd from May-September and 8.0 mgd during the "offpeak" period of October-April; and (2) the Amended Agreement for the Sale of Water (the "Amended Agreement") originally entered into in 1991, authorizing delivery of an additional 10,000 AFY at a delivery rate limited to 9.0 mgd from May-October but higher during other months. The Supplemental Water Supply Agreement extends until June 30, 2014, and is renewable at the option of MMWD. MMWD receives only a portion of its water supply from the Agency as a supplement to its own sources.

In order for MMWD to receive Agency water at any given time, two conditions must exist: (1) either there must be excess water in the Russian River or the Agency must have an obligation to release stored water when needed by MMWD; and (2) the Agency must have sufficient capacity in its Transmission System to move the stored water to the MMWD service area at the times MMWD needs the water. Under the Supplemental Water Supply Agreement, the Agency is currently obligated to release up to 9,300 AFY from storage for MMWD, and MMWD has a contractual right to purchase an additional 5,000 AFY upon payment before July 1, 2005, of a sum computed according to a formula set forth in the agreement. As of June 30, 2002, the payment amount calculated using the formula is \$5,236,859.44. However, MMWD's right to Transmission System capacity is subordinate to the rights of the Agency's eight Prime Contractors. MMWD cannot insist that the Agency's Transmission System capacity be used to provide it with water when the Transmission System is needed to provide the Prime Contractors with their contract entitlements. As discussed below, the existing Transmission System is not large enough to deliver all of the water which is authorized to be delivered under existing MMWD contracts and to the Prime Contractors during peak demand periods. Deliveries of water to MMWD are limited by the Eleventh Amended Agreement to 12.8 mgd from May 1 to October 31, and 14,300 acre-feet per year.

For purposes of the Agency's assessment of charges against MMWD for water supplied under the agreements, water is first accounted as having been delivered under the Offpeak Agreement. Under the Offpeak Agreement, the charge to MMWD for water delivered is the highest per-acre-foot charged to any of the Prime Contractors under the Eleventh Amended Agreement. The Offpeak Agreement contains a "take or pay" provision requiring MMWD to pay for up to 4,300 acre feet of water, whether or not MMWD actually takes delivery. Under the Amended Agreement, the charge to MMWD for water delivered is the sum of the Maintenance and Operation Charges assessed to the Agency's Prime Contractors, plus a Capital Charge of \$96 per acre foot. The Capital Charge may be increased only in limited circumstances.

Under the Supplemental Agreement, MMWD is not required to directly pay Capital Charges relating to specific facilities, as the Prime Contractors are required to do under the Eleventh Amended Agreement. The Supplemental Water Supply Agreement gives MMWD the option to finance with cash the construction of a new aqueduct generally paralleling the existing Petaluma aqueduct, in return for the right to the capacity in the new aqueduct. If MMWD does not elect this option, the Agency cannot directly assess Capital Charges against MMWD to finance construction of the new aqueduct or other WSTSP facilities (although the amount charged to MMWD under the Offpeak Agreement will increase due to the increased total charge to other Prime Contractors resulting from Capital Charges).

Other Water Supply Agreements

The Agency supplies a small amount of water from the Transmission System to a limited number of other customers. The amount so supplied is limited by the Eleventh Amended Agreement to an average of 2.7 million gallons per day in any month. The charge to these other customers for water supplied by the Transmission System must be at least 120% of the highest per-acre-foot charge paid by any Prime Contractor.

The Memorandum of Understanding Re. Temporary Impairment

On December 7, 1999, the Board declared that the capacity of the Agency's Transmission System was temporarily impaired during the summer months of June, July, August, and September, and that the reliable water production capacity of the Agency's Transmission System is limited to an average monthly capacity of 84 million gallons per day (mgd) in the summer months through September 2005. The completion of facilities (primarily Collector No. 6) authorized under the Eleventh Amended Agreement should remedy the temporary impairment. However, without these facilities, the existing Transmission System may be unable to meet peak summer demand. The MOU re. Temporary Impairment was negotiated among the Agency and its major customers (the Prime Contractors, MMWD, and the Town of Windsor) in order to address various issues arising from the temporary impairment.

Section 3.5 of the Eleventh Amended Agreement provides for allocation of water during a temporary impairment situation, based upon the health and safety needs and the "reasonable requirements" of the Agency's customers. The MOU re. Temporary Impairment allocates specific amounts of water from the Transmission System to each customer during the temporary impairment period, primarily based upon each party's respective "reasonable requirements." Under the MOU, during the summer months customers cannot take more than the greater of their allocation under the MOU or their maximum delivery limit under the Tenth Amended Agreement. The MOU also contains other provisions designed to increase the conservation efforts of the customers and to provide incentives to customers to develop recycled water projects and additional local potable water supplies.

The MOU re. Temporary Impairment remains in effect until September 30, 2005, unless terminated earlier by the parties.

Charges Excluded from Revenues Pledged to Bond Obligations

Both MMWD and North Marin pay certain charges (the Russian River Projects Charge and the Russian River Conservation Charge) in lieu of property tax payments received from taxpayers within the jurisdictions of the Prime Contractors within Sonoma County. Revenues from these charges are placed in the Russian River Projects Fund, are not Gross Revenues for purposes of the Ordinance and are not pledged to pay revenue bond obligations arising from Transmission System capital projects. In addition, as noted above, MMWD has the option of making a payment before July 1, 2005 that would require the Agency to release additional amounts from storage in Lake Sonoma for delivery to MMWD (subject to Transmission System constraints). This payment is also not pledged to the payment of revenue bond obligations. Similarly, any payments made to the Agency for the purpose of securing or defending Agency water rights, ensuring continuation of or access to water supply, or for purposes of altering or improving any Russian River Project facility to comply with environmental laws are also not pledged to the payment of bond revenues. However, revenues from capital or non-capital charges assessed by the Agency to pay for environmental compliance activities, improvements, or new facilities that are directly related to Transmission System facilities are pledged to payment of revenue bond obligations.

AGENCY'S WATER TRANSMISSION SYSTEM ENTERPRISE FUNDS FINANCIAL INFORMATION

Historic Water Deliveries

According to Agency records, over the past five Fiscal Years (1997-98 through 2001-02), it has delivered to its customers on average 59,767 acre-feet of water per year. The following table summarizes historic water deliveries in acre-feet for Fiscal Years 1997-1998 through 2001-2002.

**TABLE NO. 1
SONOMA COUNTY WATER AGENCY
HISTORIC WATER DELIVERIES (ACRE-FEET)**

Fiscal Year (June 30) Delivered	Total Water
1998	54,121
1999	59,682
2000	61,567
2001	62,023
2002	61,443
5-Year Average	59,767

Source: The Agency

Largest Customers

The Agency provides metered water service to all of its Water Contractors. The Agency's ten largest customers are listed in the following table.

TABLE NO. 2
SONOMA COUNTY WATER AGENCY
TEN LARGEST CUSTOMERS (FY 2001- 02)

	Customer Name	Annual Dollars	% of Total
1	City of Santa Rosa	\$8,623,565	36.8%
2	City of Petaluma	3,970,328	17.0
3	Marin Municipal Water District	3,355,306	14.3
4	North Marin Water District	3,052,570	13.0
5	City of Rohnert Park	1,139,930	4.9
6	Valley of the Moon Water District	1,077,542	4.6
7	City of Sonoma	925,954	4.0
8	City of Cotati	273,461	1.2
9	Cal-American Water Co. – Larkfield	223,787	1.0
10	Forestville Water District	180,681	0.8

Source: The Agency

Water Transmission System Budget, Rates and Charges

Under the Eleventh Amended Agreement, on or before April 30 of each Fiscal Year, the Board must set the Agency's rates and charges for the next Fiscal Year. The rates and charges approved by the Board are not subject to the approval of any outside governmental agency or body.

Before recommending the level of rates and charges to the Board, Agency staff provides estimates of revenues and expenditures for the next Fiscal Year, along with the proposed rates and charges, to the Water Advisory Committee. The Water Advisory Committee is composed of one representative selected by each of the Agency's Prime Contractors, and serves as the collective spokesperson for the Prime Contractors. The Water Advisory Committee may comment upon and recommend changes to the proposed rates and charges. Although the Water Advisory Committee typically concurs with and approves the recommendations of Agency staff, Water Advisory Committee approval of rates and charges is not required under the Eleventh Amended Agreement.

The Agency's budget is prepared on a cash basis. The Agency is required under its Ordinance to set rates and charges to cover Maintenance and Operation Costs and Net Revenues equal to 1.15 times Debt Service. The Board adopted the Agency's operating budget for the 2002-03 Fiscal Year on April 16, 2002. The table below lists the percentage rate increases approved by the Board over the last five Fiscal Years for the various aqueduct customers.

TABLE NO. 3
SONOMA COUNTY WATER AGENCY
WHOLESALE WATER RATES
(Dollars per acre-feet)

Fiscal Year	Santa Rosa Aqueduct	% incr. (decr.)	Petaluma Aqueduct	% incr. (decr.)	Sonoma Aqueduct	% incr. (decr.)	Forestville Aqueduct	% incr. (decr.)
2002/03	\$387.49	1.1%	\$397.90	3.6%	\$387.43	3.8%	\$364.67	1.4%
2001/02	383.29	15.9	384.02	15.8	373.38	16.4	359.62	17.4
2000/01	330.76	6.7	331.61	6.6	320.74	7.6	306.45	9.2
1999/00	309.92	3.6	311.09	3.4	298.09	(0.4)	280.58	(6.8)
1998/99	299.23	3.3	300.72	2.5	299.17	2.0	300.95	(2.7)

Source: The Agency

Billing Procedure; Collections History

All customers are billed monthly. Payments are due and payable on the date rendered and become delinquent 30 days thereafter. The late charge assessed is 10%. For the past 20 years, the rate of delinquencies has remained consistently at 0%. Consequently, there have been no instances of bad debt write-offs for unpaid bills.

Outstanding Indebtedness

Table No 4 summarizes the Agency's outstanding debt for the Transmission System as of September 30, 2002.

TABLE NO. 4
SONOMA COUNTY WATER AGENCY
WATER TRANSMISSION SYSTEM OUTSTANDING LONG TERM DEBT

	Maturity Date	Interest Rate (s)	Authorized & Issued	Outstanding September 30, 2002
1971 Revenue Bonds (Series 1993A)	February 1 2003	2.5 – 5.375%	\$10,060,000	\$410,000*
State Revolving Fund Loan	January 2023	2.7934%	\$15,858,989	\$4,226,429

Source: The Agency.

* Final maturity to be defeased from Agency funds simultaneously with the issuance of the 2003 Series A Bonds.

1971 Revenue Bonds (Series 1993A)

The Series 1993A Refunding Bonds were issued to refund and defease the lien on all of the outstanding 1971 Series A and Series B Water Revenue Bonds, and to pay certain costs for issuing the Series 1993A Refunding Bonds, including the cost of a surety bond to satisfy the reserve fund requirement. The principal amount of \$410,000 of these Series 1993A Refunding Bonds remained outstanding as of September 30, 2002. The Agency will use its cash to defease these remaining Series 1993A Refunding Bonds simultaneously with the issuance of the 2003 Series A Bonds.

State Revolving Fund Loan

In March 2002, the Agency entered into a loan contract (the "State Loan") with the State of California, Department of Water Resources for funding the construction of Collector No. 6, an element of the earlier Russian River-Cotati Intertie Project. The State Loan was amended October 2002 and is for \$15,858,989, of which \$4,226,429 has been availed of as of June 30, 2002. The balance of the loan amount is being currently drawn as construction progresses. The term of the State Loan is for 20 years and the annual interest rate is 2.7934%. Principal, interest, and reserve payments begin no later than one year from the scheduled completion of the project. It is anticipated that the principal, interest and reserve payments would begin in Fiscal Year 2003-04. Beginning Fiscal Year 2003-04, the average annual payment would be approximately \$1,150,995, including principal, interest, and reserve fund contribution through and including 2013 and beginning 2014 and through and including 2024 approximately \$1,040,354.52. The State Loan is a Parity Obligation.

Future Agency Indebtedness

The financial plan proposes that net revenues be relied upon to finance these capital improvements to the maximum extent possible. The Agency proposes to finance the facilities that cannot be financed with current earnings by issuing Parity Obligations. It is anticipated that in addition to the current \$16.0 million funded by the 2003 Series A Bonds, approximately an additional \$88.0 million (in 2001 dollars) will have to be funded through external borrowing through 2035.

The financing costs of the WSTSP will be passed on to the Water Contractors as Capital Charges from common facilities charges, storage facilities charges or aqueduct charges, or other charges as applicable, under the existing contractual provisions of the Eleventh Amended Agreement, the Supplemental Water Supply Agreement, and other water sales agreements. For projected costs of the WSTSP and projected increases in water rates, see "Table No. 6 - PROJECTED DEBT SERVICE COVERAGE" and "APPENDIX E – WSTSP FINANCING PLAN"

Historic Operating Results and Debt Service Coverage

The following table sets forth a summary of the Transmission System operating results of the Agency for the last five Fiscal Years. Governmental Funds (including General and Special Tax Revenue Funds), Fiduciary Funds, and Enterprise Funds in relating to the Transmission System (Russian River Project Fund, Recycled Water Fund, and Sanitation Zone Funds) are not pledged for payment of the principal and interest on the 2003 Series A Bonds and are excluded from Tables 5 and 6.²

The information set forth in the following table has been derived by the Agency from its audited financial statements for such Fiscal Years (other than Fiscal Year 2001-02, for which year the figures are from Agency estimates as the audit is currently underway), but excludes certain non-cash items and certain other adjustments. A copy of the most recent audited financial statements of the Agency, including the unqualified opinion letter of Pisenti & Brinker, LLP which is included as Appendix B hereto.

The audit reports state the financial statements were examined in accordance with generally accepted auditing standards and contain opinions that the financial statements present fairly the financial position of the various funds maintained by the Agency. For a description of the various funds and the Agency's significant accounting policies, see the Agency's audited general-purpose financial statements for the year ended June 30, 2001 contained in Appendix B. Copies of similar reports for earlier years are available on request from the Agency.

The following summary for the Fiscal Year ended June 30 for the years indicated is qualified in its entirety by reference to such statements for such years, including the notes thereto. The Auditor has not reviewed the information set forth in the following table.

TABLE NO. 5
SONOMA COUNTY WATER AGENCY
WATER TRANSMISSION SYSTEM
HISTORICAL DEBT SERVICE COVERAGE
(Fiscal Year Ending June 30)

	1998	1999	2000	2001	2002
Operating Revenues:					
Water Sales ⁽¹⁾	\$15,593,791	\$17,440,564	\$18,889,672	\$20,169,620	\$22,530,437
Installation Charges	130,862	103,878	44,851	88,751	52,187
Power Sales ⁽²⁾	<u>527,254</u>	<u>664,969</u>	<u>564,629</u>	<u>763,653</u>	<u>1,171,459</u>
Total Operating Revenues	16,251,907	18,209,411	19,499,152	21,022,024	23,754,083
Other Revenues (Int. Earnings)	2,260,714	1,711,550	1,825,214	2,245,459	839,453
Total Gross Revenues	18,512,621	19,920,961	21,324,366	23,267,483	24,593,536
Maintenance & Operations Costs ⁽³⁾	11,356,176	12,708,857	16,547,927	18,968,396	17,204,607
Net Revenues	7,156,445	7,212,104	4,776,439	4,299,087	7,388,929
Principal & Interest Payments	\$2,273,916	\$2,237,898	\$1,296,669	\$1,300,201	\$1,384,120
Debt Service Coverage	3.1	3.2	3.7	3.3	5.3

Source: The Agency. For the years 1998 – 2001, audited financial statements 1998 – 2001; for the year 2002, Unaudited Agency financial statements.

⁽¹⁾ Includes Maintenance & Operations Charges and Revenue Bond Charges.

⁽²⁾ The hydroelectric project was financed by the Water Transmission Enterprise fund and power sales revenues are pledged for payment of the 2003 Series A Bonds.

⁽³⁾ Excludes non-cash expense of depreciation

Projected Operating Results and Debt Service Coverage

Estimated projected operating results (on a cash basis) for the Agency for the current and next four Fiscal Years are set forth below. Certain assumptions have been made by the Agency in the development of the projections. Many of these assumptions are reflected in the footnotes accompanying the projections. While the Agency believes its assumptions are

² See "Reconciling Schedule" for a table reconciling the information provided in Table 5 and the Agency's audited financial statements.

reasonable, there can be no assurance that the assumed conditions will in fact occur. The Agency's projections may be affected (favorably or unfavorably) by unforeseen future events. Therefore, the results projected below cannot be assured.

TABLE NO. 6
SONOMA COUNTY WATER AGENCY
WATER TRANSMISSION SYSTEM
PROJECTED DEBT SERVICE COVERAGE
(Fiscal Year Ending June 30)

	2003 ⁽¹⁾	2004 ⁽²⁾	2005 ⁽²⁾	2006 ⁽²⁾	2007 ⁽²⁾
Operating Revenues:					
Maintenance & Operations Charges	\$22,656,400	\$23,562,656	\$24,505,162	\$25,485,369	\$26,504,783
Revenue Bond Charges ⁽³⁾	1,280,600	2,258,665	2,456,232	2,454,794	2,453,058
Installation Charges	25,000	26,000	27,040	28,122	29,246
Power Sales ⁽⁴⁾	<u>900,000</u>	<u>936,000</u>	<u>973,440</u>	<u>1,012,378</u>	<u>1,052,873</u>
Total Operating Revenues	24,862,000	26,783,321	27,961,874	28,980,663	30,039,960
Other Revenues (Int. Earnings)	680,000	708,032	736,353	765,807	796,440
Total Gross Revenues	25,542,000	27,491,353	28,698,227	29,746,470	30,836,400
Maintenance & Operations Costs ⁽⁵⁾	22,851,000	23,765,040	24,715,642	25,704,267	26,732,438
Net Revenues	2,691,000	3,726,313	3,982,585	4,042,203	4,103,962
Principal & Interest Payment – Existing ⁽⁶⁾	1,352,800	1,150,995	1,150,995	1,150,995	1,150,995
Principal & Interest Payment – 2003 Series A	0	813,061	984,859	983,609	982,099
Debt Service Coverage Ratio	2.0	1.9	1.9	1.9	1.9

Source: The Agency

(1) Proposed Fiscal Year 2002-03 Budget, including technical adjustments. Rate increase of 3.6% effective July 1, 2002.

(2) Revenues increased by 4% annually. Expenses inflated by 4% annually.

(3) Includes estimated annual debt service payments and an additional 15% as authorized by the current water supply agreement.

(4) The hydroelectric project was financed by the Water Transmission Enterprise fund and power sales revenues are pledged for payment of the 2003 Series A Bonds.

(5) Includes water production, water operation and maintenance, general and administrative, and other expenses. Excludes "non-cash" expense of depreciation.

(6) The existing 1971 Revenue Bonds (Series 1993 A) would be paid off in FY 2002-03; The other outstanding debt is a State Revolving Fund loan in the amount of \$15,858,989, of which \$4,226,429 has been availed as of June 30, 2002. The annual debt service of \$1,150,995 for the state loan assumes full utilization of that loan.

Reconciling Schedule

The audited financial statements of the Agency include both the Russian River Project Fund as well as the Recycled Water Fund within the "Total Water Transmission Fund" category. Since these two funds are non-Transmission System funds based on their sources of revenue – override property taxes, charges in-lieu of override property taxes, and contributions from the Agency General Fund – the funds have been excluded from table 5. Table 7 reconciles Table 5 to the audited financial statements of the Agency.

TABLE NO. 7
SONOMA COUNTY WATER AGENCY
WATER TRANSMISSION FUND
(INCLUDING R.R. PROJECTS AND RECYCLED WATER FUNDS)
RECONCILING SCHEDULE
(Fiscal Year)

	1998	1999	2000	2001
Operating Revenues:				
Operating Revenue – Water	\$16,251,907	\$18,209,411	\$19,499,152	\$21,022,024
Operating Revenue – RR Projects/Recycled	7,847	6,023	1,758	516,900
Total Operating Revenues	16,259,754	18,215,434	19,500,910	21,538,924
Operating Expenses:				
Operating Exp. – Water (M&O)	11,356,176	12,708,857	16,547,927	18,968,396
Operating Exp. – Water (Depreciation)	2,005,737	1,982,536	2,132,218	2,137,746
Operating Expenses – RR Projects/Recycled	1,669,706	1,416,337	2,023,374	2,280,133
Total Operating Expenses	15,031,619	16,107,730	20,703,519	23,386,275
Operating Income (Loss)	1,228,135	2,107,704	(1,202,609)	(1,847,351)
Non-Operating Revenues:				
Non-Oper. Rev.– Water (Interest Earnings)	2,260,714	1,711,550	1,825,214	2,245,459
Non-Oper. Rev./(Exp.)– Water (Other)	(943,001)	(210,347)	(138,311)	1,148,351
Non-Operating Rev. – RR Projects/Recycled	755,914	948,550	1,693,834	506,034
Total Non-Operating Revenues	2,073,627	2,449,753	3,380,737	3,899,844
Oper. Transfers In – RR Projects/Recycled	0	2,300,000	2,000,000	2,000,000
Net Income (Loss)	3,301,762	6,857,457	4,178,128	4,052,493

Source: Audited financial statements 1998 – 2001

Investment of Agency Funds

The Agency Fund, into which all Revenues of the Transmission System are initially deposited is held by the Treasurer who deposits the monies in the Sonoma County pool, which is invested in accordance with the Sonoma County Investment Policy. In accordance with State law, the primary objectives, in priority, are safety of principal, liquidity, and yield. A detailed description of the County of Sonoma's Investment Policy is available from the Treasurer. The Reserve Account and the Debt Service Funds held by the Trustee, and the Construction Fund held by the Treasurer are required to be invested in certain Authorized Investments as defined in the Ordinance.

All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Ordinance, or other amounts held by the Agency, could have a material adverse affect on the Agency's finances. For a description of the Agency's investments at June 30, 2002, see "APPENDIX B – SONOMA COUNTY WATER AGENCY FINANCIAL STATEMENTS."

The County of Sonoma's Investment Policy may be changed at any time by the County Board of Supervisors (subject to the State law provisions relating to Authorized Investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under State law or the Investment Policy or that the objectives of the Agency with respect to investments or its investment holdings will not change.

Insurance

The Sonoma County Water Agency is a named insured on all general and automobile liability coverages maintained by the County of Sonoma. The County of Sonoma maintains a self-insured retention of \$750,000 per occurrence. Excess Liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA) Excess Liability Program. Limits of this coverage are \$10,000,000. Additional coverage with limits \$5,000,000 in excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through the CSAC-EIA, for a total limit per occurrence of \$15,000,000.

The County of Sonoma maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company of Pittsburgh, PA., and administered through the CSAC-EIA. Coverages include forgery and alteration, theft, disappearance and destruction, robbery and safe burglary, and computer fraud with limits at \$5,000,000 and a \$25,000 deductible.

The Agency is a named insured on property insurance coverage maintained by the County. The County maintains "All Risk" property insurance including flooding and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of the coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence, and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000 up to the deductible.

It is the County's policy to appropriate annually sufficient funds to cover the estimated liability of the County and other governmental entities covered by the County's self-insurance program for self-insurance claims to be made during the upcoming Fiscal Year. Whenever a claim is made, the claim is evaluated and a portion of the appropriated funds is reserved to satisfy the County's estimated liability for such claim. Although the County believes that its past experience enables it to evaluate reasonably its liability for self-insurance claims, no assurance can be made that the amount reserved for such purpose will be adequate, nor can there be any assurance that the funds appropriated to satisfy claims arising during any Fiscal Year will be sufficient. The Agency purchases additional policies through the County to cover certain risks not covered by self-insurance.

Retirement Fund

The Agency contributes to a single-employer public employee retirement plan that is administered by the Sonoma County Retirement Association (the "Retirement Association"). The Agency entered the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Agency participate in this plan. All permanent employees working at least three-quarter time of a full-time position for the Agency are eligible. The plan provides death, disability, and service retirement benefits. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. Benefits were established under the authority of the County Employees Retirement Law of 1937. The Retirement Association is approximately 94.6% funded (as at December 31, 2001) in accordance with principles established by the Governmental Accounting Standards Board.

The Agency's contribution to the plan during the Fiscal Year ended June 30, 2002, was \$1,526,424, including normal costs and amortization of prior service costs. General members are eligible to retire when they complete 10 years of service and reach age 50 or complete 30 years of service, regardless of age. Safety members are eligible to retire when they complete 10 years of service and reach age 50 or complete 20 years of service, regardless of age.

CERTAIN REGULATORY AND LEGAL MATTERS

Obligations of the Agency with respect to the Russian River Project

Two federal projects assure the water supply diverted and delivered by the Agency through the Transmission System: the Coyote Valley Dam on the Russian River northeast of the city of Ukiah in Mendocino County (forming Lake Mendocino), and the Warm Springs Dam on Dry Creek (a tributary of the Russian River) northwest of the city of Healdsburg in Sonoma County (forming Lake Sonoma). These projects (jointly referred to as the "Russian River Project") are operated by the U.S. Army Corps of Engineers ("Corps") for water supply and flood control purposes. For more information on the Russian River Project, see "APPENDIX D - HISTORY OF SONOMA COUNTY WATER AGENCY, THE RUSSIAN RIVER WATERSHED, AND THE WATER TRANSMISSION SYSTEM." Because the Agency was the local sponsor for the dams and partially financed their construction, the Agency has the right to control releases from the water supply pools of both reservoirs.

Coyote Valley Dam Project

The Agency made a payment of \$5,598,000 to the United States in 1956 that satisfied the entire local cost-sharing obligation for the Coyote Valley Dam Project, except for the obligation to maintain downstream erosion control.

Warm Springs Dam Project

The Agency's obligations with respect to the Warm Springs Dam project are set forth in a First Amended Contract between the Agency and the United States dated October 1, 1982. The Agency's repayment obligation under the First Amended Contract includes 30.2% of the total Warm Springs Dam Project joint use construction costs, a percentage of the Warm

Springs Dam Project operation, maintenance, major replacement, and major rehabilitation costs (beginning at 6.7% in 1992 and increasing to 32.5% in 2005), and 30.2% of dam safety assurance program costs.

The Agency's current annual payment for its share of construction costs is \$3,255,164.92. Under the First Amended Agreement, the Agency's annual payment amount increases in 2006 to \$6,285,571.47, with the last annual payment due in 2034. The percentage of operation, maintenance, and major replacement and rehabilitation costs the Agency must pay under the First Amended Agreement is currently 20.2%. This percentage increases to 32.5% in 2005. The Corps' Fiscal Year 1999/2000 annual operation and maintenance cost was \$1,971,000, and since 1992 has been increasing at an annual rate of 3.3%.

The First Amended Contract provides that the Agency's allocated share of any major replacement costs, rehabilitation costs, and dam safety assurance programs may be paid either as they are incurred or amortized over a period not to exceed 25 years. The Corps has incurred no major replacement costs to date.

The First Amended Contract also obligates the Agency to comply with all applicable federal and state laws and regulations while acting under its Warm Springs Dam Project rights. The Agency is also required under separate agreements to maintain certain downstream channel improvements.

The Agency's obligations with respect to the Russian River Project are paid through the imposition of property taxes on properties within Sonoma County. These taxes are levied subject to Art. 13A, section (1)(b)(1) of the California Constitution, which authorizes property taxes in excess of the otherwise applicable one percent of assessed value limit in order to pay indebtedness approved by the voters prior to the enactment of Proposition 13 in 1978, as implemented by California Revenue and Taxation Code section 96.31. Revenues from the Russian River Projects Charge and Russian River Conservation Charge imposed upon MMWD and North Marin Water District under the Supplemental Water Supply Agreement and the Eleventh Amended Agreement are also available to pay the Agency's Russian River Project obligations. The Agency has funded a sinking fund to pay future Russian River Project obligations. The fund primarily consists of United States treasury obligations, and has a market value as of June 30, 2002, of \$61,516,584.

The Endangered Species Act Consultation

Three salmonid species that inhabit the Russian River watershed have been listed as "threatened" under the federal Endangered Species Act ("ESA"). Protective regulations promulgated under the ESA prohibit the "take" of these species. "Take" is broadly defined in the ESA and its implementing regulations; it includes not only intentionally killing a protected species, but also actions that unintentionally result in actual harm to a member of a protected species, including adverse modification of habitat. Civil and criminal penalties may be imposed under the ESA for the "take" of protected species.

Because the Agency's water supply facilities and operations have the potential to adversely affect the three threatened species, the Agency entered into a Memorandum of Understanding in December 1997 to participate in a consultation under Section 7 of the ESA. The other signatories to the MOU include the U.S. Army Corps of Engineers (the federal agency) and the National Marine Fisheries Services ("NMFS"). Under Section 7 and the MOU, NMFS will issue a "Biological Opinion" that will evaluate the effects of Agency activities on the threatened species. In connection with the Biological Opinion, NMFS may issue an "incidental take statement" that will immunize the Agency from liability under the ESA for authorized incidental takes. To obtain this immunity, NMFS may require the Agency to modify its water supply facilities or operations. It is uncertain what modifications NMFS may require the Agency to implement in order to obtain an incidental take statement. The alternatives may have adverse financial and operational impacts on the Transmission System. The Agency anticipates that the Biological Opinion will not be issued by NMFS until the end of 2003.

NMFS has filed a protest to the water rights petitions filed by the Agency with the SWRCB to increase the Agency's diversions as contemplated by the WSTSP. Conclusion of the Section 7 consultation process satisfactory to NMFS will allow NMFS to withdraw the protest, thereby making it more likely that the SCWRB will grant the Agency's petitions. See "THE AGENCY AND THE TRANSMISSION SYSTEM – The Agency's Water Rights" herein.

In addition to the federal ESA listings, the State of California has listed coho salmon within the Russian River watershed as endangered under the California Endangered Species Act.

Potter Valley Project License Amendment Proceeding

Diversions from the Eel River watershed through PG&E's Potter Valley Project ("PVP") provide an additional supply of water to Lake Mendocino and the Russian River. Operation of the PVP is licensed by the Federal Energy Regulatory Commission ("FERC"). PG&E's license to operate the PVP expires in 2022. Diversions from the Eel River watershed are subject to the terms of the FERC license.

Currently pending before FERC is an application filed by PG&E in 1998 to amend the FERC license to include an Eel River flow proposal that would reduce the amount of water diverted into the Russian River watershed for the benefit of Eel River fisheries. PG&E's application followed a 10-year fishery study, and was required by the existing FERC license. The Agency and several other parties intervened in the proceeding and filed alternative flow proposals with FERC. In May 2000, FERC issued a final Environmental Impact Statement that recommended implementation of the PG&E flow proposal, with certain modifications suggested by the Potter Valley Irrigation District (PVID). In November 2000, NMFS issued a draft biological opinion pursuant to section 7 of the federal Endangered Species Act (ESA) which concluded that the recommended alternative in the FEIS would jeopardize the continued existence of threatened salmon species in the Eel River. In response, in June 2001 PG&E filed a proposed modification to the PVID/PG&E minimum flow proposal. In July 2001, FERC requested that NMFS suspend preparation of its final biological opinion so that FERC staff could review and analyze the modified PVID/PG&E proposal. On May 7, 2002, FERC staff informed NMFS that it would not adopt the modified proposal as its proposed agency action, but rather would continue to recommend the original PVID/PG&E proposal, and requested that NMFS resume preparation of its biological opinion. On November 26, 2002, NMFS issued a final biological opinion, concluding that the PVID/PG&E proposal would jeopardize the continued existence of threatened salmonid species in the Eel River watershed, and proposed as a "reasonable and prudent" alternative (which would avoid jeopardizing the species) a slightly modified version of a flow proposal first submitted to FERC by NMFS and the Department of the Interior in 1999.

All alternative flow proposals under consideration result in a reduction of diversions from the Eel River into the Russian River watershed. However, the reductions are significantly greater under proposals submitted by NMFS and the Department of the Interior and the Round Valley Indian Tribes ("RVIT"). The alternative currently preferred by FERC could have significant water supply impacts in the upper and middle reaches of the Russian River in dry years, but impacts upon the ability of the Agency to supply water to its Water Contractors through the Transmission System would be minor because of the availability of the Lake Sonoma water supply. Transmission System impacts are greater in dry years under the DOI/NMFS and RVIT proposals.

It is uncertain when FERC will issue a decision on the pending PG&E application.

Friends of the Eel River Litigation

Following approval of the WSTSP by the Agency's Board of Directors, an environmental group, Friends of the Eel River ("FOER"), filed litigation in Sonoma County Superior Court (Case No. SCV 220847) under the California Environmental Quality Act ("CEQA"), challenging the adequacy of the Environmental Impact Report prepared by the Agency to analyze the environmental impacts of the WSTSP. FOER also alleged non-CEQA claims, but two of the three non-CEQA claims have been dismissed, with prejudice. The two primary CEQA claims alleged by FOER were that the WSTSP has an environmental impact on the Eel River which should have been evaluated in the EIR, and that the EIR did not contain an adequate evaluation of the WSTSP's growth-inducing and cumulative impacts. FOER also claimed that the Agency should have evaluated an alternative to the WSTSP which would have improved Eel River conditions, that updated information regarding fish species required recirculation of the EIR, and that the Agency's response to public comments on the EIR was inadequate. FOER also claimed that the Agency's approval of the WSTSP was in violation of state planning laws.

Following three days of hearing in August 2000, the trial court ruled in favor of the Agency on FOER's CEQA and state planning law claims. Following the dismissal of two of the three remaining non-CEQA claims by FOER, FOER appealed the trial court's decision in favor of the Agency. The appeal is pending (Court of Appeal, First District, Case No. A09118). The Agency believes that FOER's claims are without merit and that the Court of Appeal will affirm the trial court's decision.

The Agency has completed project-specific environmental review for the Wohler-Forestville Pipeline (EIR), the Eldridge-Madrone Pipeline, a component of the Annadel-Sonoma Pipeline (mitigated negative declaration), and Kawana Springs Tank No. 2 (WSTSP EIR). Because the Agency's environmental analyses under CEQA for the Wohler-Forestville Pipeline and the Eldridge-Madrone Pipeline, a component of the Annadel-Sonoma Pipeline was not challenged within the applicable statute of limitations, these projects would not now be subject to a CEQA challenge even if FOER were to prevail on appeal. Because the Kawana Springs Tank No. 2 project is a storage project that does not increase the amount of water the Transmission System can deliver, it is unlikely that FOER would seek to challenge the Agency's construction of the project even if it prevails on appeal.

CONSTITUTIONAL LIMITATIONS ON FEES AND CHARGES

In November 1996 California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles 13C and 13D to the State Constitution, which affects the ability of local government to levy and collect both existing and future taxes, revenues, fees and charges.

Under Article 13D, revenues derived from a "fee" or "charge" (defined as "any levy other than an *ad valorem* tax, a special tax or an assessment") imposed by an agency upon a parcel or upon a person merely as an incident of property ownership, including user fees or charges for a "property-related service," may not exceed the funds necessary to provide that service. Further, the amount of a "fee" or "charge" may not exceed the proportional cost of the service attributable to the parcel.

All new and existing property-related fees and charges must conform to specific requirements and prohibitions set forth in the Article. Before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The entity must then hold a hearing upon the proposed imposition or increase and, if written protests against the proposal are presented by a majority of the owners of the identified parcels, the entity may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse purposes, no property-related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the entity, two-thirds voter approval by the electorate residing in the affected area.

The Agency believes that Article 13D does not apply to wholesale water charges established pursuant to Water Supply Agreements with its customer agencies because these are not "property-related" fees or charges. However, it is possible that some or all elements of Article 13D could be held to apply to retail water rates established by those customer agencies. The California Attorney General has issued an opinion that water charges based on amounts consumed are not imposed as an "incident of property ownership" and are therefore not subject to Article 13D. The one reported appellate court opinion that addresses the issue also held that retail water rates based on the amount used do not require voter approval under Article 13D. Nevertheless, the proponents of Proposition 218 have stated that they believe the proposition does apply to retail water charges, and the applicability of the constitutional limitations may depend on individual retail customer agencies' particular rate structures.

INITIATIVE AND REFERENDUM POWERS

California law reserves to voters broad powers of initiative and referendum at both the local and state level. Recent decisions by the California Supreme Court have expanded the scope of local voters' power to change or overturn decisions by elected officials establishing taxes and service charges, such as water rates.

Under Article 13C, section 3, of the State Constitution, added by the Proposition 218 initiative in 1996, the initiative power is expressly extended to matters of local taxes, revenues, fees and charges. This means that the voters of the Agency could by future initiative repeal or reduce existing Agency taxes and water charges.

This power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as the Net Revenues securing the 2003 Series A Bonds. Legislation adopted by the State legislature in 1997 provides that Article 13C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of, or consents to, any initiative measure which would constitute an impairment of contractual rights under the Contracts Clause of the United States Constitution.

Also, voters of one or more of the Water Contractors could similarly exercise power through an initiative or referendum to reduce or otherwise restrict the retail water rates, a portion of which is used to pay the Agency's wholesale charges and which are therefore the ultimate source of the revenues securing payment of the 2003 Series A Bonds.

The California Constitution provides that it may be amended by the voters pursuant to an initiative process. From time to time, initiative measures could be adopted which adversely affect the Agency's water revenues or its ability to expend revenues. The nature and impact of these measures, if any, cannot be anticipated by the Agency.

RISK FACTORS

The following section describes certain special considerations and risk factors affecting the payment of and security for the 2003 Series A Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any 2003 Series A Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2003 Series A Bonds. There can be no assurance that other considerations will not arise in the future.

General

The Debt Service on the 2003 Series A Bonds are payable solely from and secured solely by the Net Revenues pledge therefor under the Ordinance, together with amounts on deposit from time to time in certain funds and accounts held by the Trustee. If for any reason, the Agency does not collect sufficient Net Revenues to pay the principal and interest, the Agency will not be obligated to use any of its other funds, other than amounts on deposit in the Reserve Account and certain other

amounts on deposit in the funds and accounts established under the Ordinance to pay Debt Service on the 2003 Series A Bonds.

Casualty Risk/Seismic Considerations

Any natural disaster or other physical calamity, including earthquake, may damage the Transmission System and/or adversely affect the economy of the surrounding area. The Ordinance requires the Agency to maintain insurance or self-insurance, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Transmission System, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. See "AGENCY'S WATER TRANSMISSION SYSTEM ENTERPRISE FUNDS FINANCIAL INFORMATION – Insurance." Although the Eleventh Amended Agreement requires the Prime Contractors to pay Capital Charges to the Agency sufficient to allow the Agency to pay debt service of the 2003 Series A Bonds, such calamity may affect the Prime Contractors' ability to make such payments. See "THE AGENCY AND THE TRANSMISSION SYSTEM - Reliability of Water Supply."

Limitation on Remedies to Bondholders

The enforceability of the rights and remedies of the Owners of the 2003 Series A Bonds, and the obligations incurred by the Agency, may be subject to the following: the limitations on legal remedies against public entities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the 2003 Series A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Transmission System serves an essential public purpose.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the Agency to implement future rate increases which could reduce Net Revenues and adversely affect the security for the 2003 Series A Bonds.

Agency Expenses; Changes in Technology and Quality Standards

There can be no assurance that the Agency's expenses for the Transmission System will remain at the levels described in this Official Statement. Changes in technology, energy, or other expenses could require substantial increases in rates or charges to the Water Contractors. Such rate increases could increase the likelihood of nonpayment, and could also decrease water demand.

Drought

A drought would reduce the Agency's Net Revenues in the Fiscal Year in which it began, but rates would be increased to make up the difference in the next year. The Eleventh Amended Agreement requires the Prime Contractors to pay charges necessary to permit the Agency to pay its revenue bond obligations, even if the Prime Contractors do not receive the quantity of water to which they are entitled under the Eleventh Amended Agreement. In addition, the Agency anticipates that there would be only a minor reduction in the amount of water available for diversion by the Agency even in a severe drought year. See "THE AGENCY AND THE TRANSMISSION SYSTEM - Reliability of Water Supply."

Loss of Tax-Exemption on Bonds

As discussed under the caption "TAX MATTERS" herein, interest with respect to the 2003 Series A Bonds could be come includable in gross income for purposes of federal income taxation retroactive to the date the execution and delivery of the 2003 Series A Bonds as a result of future acts or omissions of the Agency in violation of certain covenants contained in the Ordinance. Should such an event of taxability occur, the 2003 Series A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Ordinance.

Rate Covenant

The Agency covenants to increase the fees and/or rates established for water services to pay Debt Service on the 2003 Series A Bonds. These fees and charges are passed through to the Prime Contractors under the Eleventh Amended Agreement. Because of procedural requirements imposed by proposition 218, the Water Contractors may not be able to increase water fees on this amortization. Fee increases for water services may be subject to public hearings and majority protest provisions. See "CONSTITUTIONAL LIMITS ON FEES AND CHARGES" herein.

No Mortgage

The obligation of the Agency to make Debt Service Payments is not secured by a mortgage or deed of trust on the Project or on any other property, real or personal, of the Agency.

CONTINUING DISCLOSURE

The Agency has covenanted in a continuing disclosure agreement for the benefit of the holders and beneficial owners of the 2003 Series A Bonds to provide certain financial information and operating data relating to the Agency by not later than nine months following the end of the Agency's Fiscal Year (currently June 30), commencing with the report to be filed April 1, 2003, for the Fiscal Year ending June 30, 2002, and to provide notices of the occurrence of certain enumerated events, if material. The Agency will file the annual report and the notices of material events with each nationally recognized municipal securities information repository. The specific information to be included in the annual report and the notice of material events is set forth in Appendix G to this official statement, "FORM OF CONTINUING DISCLOSURE AGREEMENT." The Agency has never failed to comply with a continuing disclosure undertaking.

TAX MATTERS

In the opinion of Hanson, Bridgett, Marcus, Vlahos, Rudy, L.L.P., San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Master Ordinance and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the 2003 Series A Bonds and the timely payment of certain investment earnings to the United States, interest on the 2003 Series A Bonds is not includable in the gross income of the owners of the 2003 Series A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the 2003 Series A Bonds to be included in gross income retroactively to the date of issuance of the 2003 Series A Bonds.

In the further opinion of Bond Counsel, interest on the 2003 Series A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2003 Series A Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the 2003 Series A Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Master Ordinance may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the exclusion of interest on the 2003 Series A Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date issuance of the 2003 Series A Bonds will not have an adverse effect on the tax-exempt status of the 2003 Series A Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the 2003 Series A Bonds.

The difference between the principal amount of a 2003 Series A Bond with a yield greater than its interest rate (as set forth on the inside cover of this Official Statement) (each a "Discount 2003A Bond") and its initial public offering price is original issue discount. Original issue discount on a Discount 2003A Bond accrues over the term of such Discount 2003A Bond at a

constant interest rate. To the extent it has accrued, original issue discount on a Discount 2003A Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount 2003A Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount 2003A Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount 2003A Bond will increase the owner's adjusted basis in such Discount 2003A Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount 2003A Bond upon the redemption, sale or other disposition of such Discount 2003A Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, sale or other disposition of a Discount 2003A Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount 2003A Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount 2003A Bonds, other federal income tax consequences of owning and disposing of the Discount 2003A Bonds and any state and local tax consequences of owning and disposing of the Discount 2003A Bonds.

The difference between the amount payable at maturity of a 2003 Series A Bond with a yield less than its interest rate (as set forth on the inside cover of this Official Statement) (each a "Premium 2003A Bond") and the tax basis of an owner in such Premium 2003A Bond (other than an owner who holds a Premium 2003A Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who acquires such Premium 2003A Bond at a price equal to its initial public offering price as set forth on the inside cover page of this Official Statement is "bond premium." Bond premium is amortized over the term of a Premium 2003A Bond for federal income tax purposes (or, in the case of a Premium 2003A Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium 2003A Bond). An owner of a Premium 2003A Bond is required to decrease his or her adjusted basis in such Premium 2003A Bond by the amount of amortizable bond premium attributable to each taxable year in which such owner holds such Premium 2003A Bond. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Owners of Premium 2003A Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of Premium 2003A Bonds, and with respect to the state and local tax consequences of owning and disposing of Premium 2003A Bonds.

In the further opinion of Bond Counsel, interest on the 2003 Series A Bonds is exempt from personal income taxes imposed by the State of California.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix F.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2003 Series A Bonds are subject to the unqualified approving opinion of Hanson, Bridgett, Marcus, Vlahos, Rudy, L.L.P., Bond Counsel. Said opinion in substantially the form attached as Appendix F will be delivered at the time of delivery of the 2003 Series A Bonds. Certain legal matters will be passed upon for the Agency by County Counsel and for the Underwriter by its counsel, Jones Hall, a Professional Law Corporation, San Francisco, California.

NO LITIGATION

No litigation is pending or threatened concerning the validity of the 2003 Series A Bonds. The Agency is not aware of any litigation pending or threatened questioning the political existence of the Agency or contesting the Agency's power to fix water rates and charges, or the power of the Board or in any way questioning or affecting:

- (i) the proceedings under which the 2003 Series A Bonds are to be issued;
- (ii) the validity of any provision of the 2003 Series A Bonds or the Ordinance;
- (iii) the pledge of Net Revenues by the Agency under the Ordinance; or
- (iv) the titles to office of the present members of the Board.

There are a number of suits and claims pending against the Agency, which may include personal injury, wrongful death and other suits and claims against which the Agency may self-insure. The aggregate amount of the self-insured liabilities of the Agency which may result from such suits and claims will not, in the opinion of the Agency, materially impair the ability of the Agency to pay principal of or interest on the 2003 Series A Bonds as the same become due. There is no litigation pending, with service of process having been accomplished, against the Agency which if determined adversely to the Agency would, in the opinion of the Agency, materially impair the ability of the Agency to pay principal of and interest on the 2003 Series A Bonds as the same become due.

FINANCIAL STATEMENTS

The balance sheets of the Sonoma County Water Agency for Fiscal Year 2001-2002, and the related statements of operations and retained earnings and cash flows for the years then ended included in Appendix B of this Official Statement have been audited by Pisenti & Brinker, LLP, independent accountants (the "Auditor"), as stated in its report appearing in Appendix B. The Agency has not requested, nor has the Auditor given the Auditor's consent to the inclusion in Appendix B of its report on such financial statements. The Auditor's review in connection with the audited financial statements included in Appendix B included events only as of Fiscal Year 2001-2002, and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

RATINGS

Standard & Poor's, a division of the McGraw-Hill Companies, Inc., and Fitch IBCA have assigned their municipal bond ratings of AAA and AAA, respectively, to the 2003 Series A Bonds, with the understanding that upon delivery of the 2003 Series A Bonds a policy insuring the payment of principal and interest represented by the 2003 Series A Bonds will be issued by MBIA. Standard & Poor's and Fitch have also assigned to the 2003 Series A Bonds ratings of AA- and AA, respectively, without regard to the MBIA Bond Insurance Policy.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's, 55 Water Street, New York, New York 10041, and Fitch IBCA, 650 California Street, San Francisco California 94108. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2003 Series A Bonds.

UNDERWRITING

Banc of America Securities LLC (the "Underwriter"), has entered into a Bond Purchase Agreement, dated December 11, 2002, with the Agency under which it will purchase the 2003 Series A Bonds at a price equal to \$15,532,631.20 consisting of the par amount of the 2003 Series A Bonds less an Underwriter's Discount of \$117,600.00 and less a net original issue discount of \$29,768.80. The Underwriter will be obligated to take and pay for all of the 2003 Series A Bonds if any are taken. The Underwriter intends to offer the 2003 Series A Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

MISCELLANEOUS

The quotations from, and summaries and explanations of the Ordinance, statutes and other documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions. Complete copies of the documents are available upon request from the financial advisor prior to the closing and from the Agency thereafter.

This official statement is submitted only in connection with the sale of the 2003 Series A Bonds by the Agency. All estimates, assumptions, statistical information, and other statements contained herein, while taken from sources considered reliable, are not guaranteed by the Agency. The information contained herein should not be construed as representing all conditions affecting the Agency or the 2003 Series A Bonds. All information contained in this official statement pertaining to the Agency has been furnished by the Agency, and the execution and delivery of this official statement have been duly authorized by the Agency.

At the time of payment for and delivery of the 2003 Series A Bonds, the Agency will provide a statement executed by the proper officer of the Agency to the effect that to the best of his knowledge and belief this Official Statement as of its date and as of the date of its delivery does not contain any untrue statement of a material fact or omit to state a material fact required to

be stated therein or necessary to make the statements therein in the light of the circumstances under which they were made, not misleading.

Approved and Executed
Sonoma County Water Agency

/s/
Randy D. Poole General Manager/Chief Engineer

**APPENDIX A
SUMMARY OF CERTAIN PROVISIONS OF
THE ORDINANCE**

Certain provisions of the Master Ordinance are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Master Ordinance.

Definitions

Act

"Act" means the Sonoma County Water Agency Act (Cal. Stat. 1949, c. 994, as amended).

Agency

"Agency" means the Sonoma County Water Agency (formerly known as the Sonoma County Flood Control and Water Conservation District), a public district duly organized and existing under the Act, located in the County of Sonoma, State of California.

Agency Fund

"Agency Fund" shall mean the Fund established by the Treasurer to receive and hold in trust all Gross Revenues.

Authorized Investments

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.
- (2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself).
 - (A) **U.S. Export-Import Bank (Eximbank)**
Direct obligations or fully guaranteed certificates of beneficial ownership
 - (B) **Farmers Home Administration (FmHA)**
Certificates of beneficial ownership
 - (C) **Federal Financing Bank**
 - (D) **Federal Housing Administration Debentures (FHA)**
 - (E) **General Services Administration**
Participation certificates
 - (F) **Government National Mortgage Association (GNMA or "Ginnie Mae")**
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
 - (G) **U.S. Maritime Administration**
Guaranteed Title XI
 - (H) **U.S. Department of Housing and Urban Development (HUD)**
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

- (3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
 - (A) **Federal Home Loan Bank System**
Senior debt obligations
 - (B) **Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")**
Participation Certificates
Senior debt obligations
 - (C) **Federal National Mortgage Association (FNMA or "Fannie Mae")**
Mortgage-backed securities and senior debt obligations
 - (D) **Student Loan Marketing Association (SLMA or "Sallie Mae")**
Senior debt obligations
 - (E) **Resolution Funding Corp (REFCORP)** obligations
 - (F) **Farm Credit System**
Consolidated systemwide bonds and notes
- (4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G, AAA-m, or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2 including funds for which the Trustee or an affiliate provides investment advice or other services.
- (5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- (6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.
- (7) Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA (Investment Agreement criteria is available upon request).
- (8) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P.
- (9) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.
- (10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.
- (11) Any State pooled investment fund in which the Agency is permitted by statute or required to invest.
- (12) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel); and
- (13) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

Authorized Official

"Authorized Official" means the General Manager, Controller, Chief Financial Officer, or any other officer of the Agency duly authorized by the Board of Directors for that purpose.

Average Annual Debt Service

"Average Annual Debt Service" means the total Debt Service for the entire period during which the Bonds are Outstanding divided by the number of Fiscal Years or portions thereof during which the Bonds are Outstanding.

BMA Index Rate

"BMA Index Rate" means the rate published in The Bond Market Association Municipal Swap Index, produced by Municipal Market Data, a Thomson Financial Services Company, or its successors.

Bonds

"Bonds" means the 2003 Series A Bonds and any Parity Obligations or Subordinate Obligations authorized to be issued and at any time outstanding pursuant to the Master Ordinance under any Supplemental Ordinance provided for or under any Parity Obligations Instrument or Subordinate Obligations Instrument, and any Parity Obligations or Subordinate Obligations issued solely for the purpose of refunding any or all of such Parity Obligations or Subordinate Obligations. Irrespective of the Series designation, the Bonds issued hereunder shall constitute a Series of 1971 Water Revenue Bonds.

Capital Charges

"Capital Charges" means collectively Capital Charges relating to the Transmission System assessed by the Agency and derived from a) the Santa Rosa Aqueduct Capital Charge, the Forestville Aqueduct Capital Charge, the Sonoma Aqueduct Capital Charge, the Petaluma Aqueduct Capital Charge, the Aqueduct Facilities Revenues Bonds Charge, the Storage Facilities Revenue Bonds Charge, the Common Facilities Revenue Bonds Charge and the North Marin Revenue Bonds Charge assessed by the Agency pursuant to the Eleventh Amended Agreement, b) the Marin Municipal Water District under the Supplemental Agreement (excluding Capital Charges with respect to the Russian River Project Charge and the Russian River Conservation Charge and excluding lump sum payments contemplated by Section 8 of Exhibit B of the Supplemental Agreement), and c) under any other Agreement between the Agency and any Water Contractor or under any amendment to any Agreement referenced in this paragraph, relating to the Transmission System provided however any Capital Charges or other charges relating to the Russian River Project, whether part of such Agreement or not, shall be excluded under the Master Ordinance.

Construction Fund

"Construction Fund" shall mean the Revenue Construction Fund No. 1 established by the Treasurer to hold in trust proceeds of any Bonds.

Controller

"Controller" means the Sonoma County Auditor-Controller, or successor.

Continuing Disclosure Agreement

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement executed by the Agency and dated the date of original execution and delivery of the 2003 Series A Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof attached hereto as APPENDIX G.

Debt Service

"Debt Service," when used with respect to any Long-term Indebtedness, means, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due on such Long-term Indebtedness during such period, and (2) the scheduled principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-term Indebtedness during such period; computed on the assumption that no portion of such Long-term Indebtedness shall cease to be outstanding during such period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

- (a) as to any such Long-term Indebtedness bearing interest at other than a fixed rate, for periods for which the actual interest rate cannot yet be determined the interest rate on such Long-term Indebtedness shall be assumed to be equal to a rate of 120% of the BMA Index, or if the BMA Index is unavailable, another nationally recognized tax-exempt variable rate index to be selected by the Agency prior to the date of calculation and if such Long-term Indebtedness is subject to put or tender, then it shall be amortized over a term of twenty (20) years (or the stated term of such Long-term Indebtedness, if shorter);
- (b) as to Balloon Indebtedness, until twelve (12) months prior to the maturity or due date with respect to such Balloon Indebtedness (at which time such Balloon Indebtedness shall be assumed to be payable in accordance with its terms unless there shall have been obtained a binding commitment on commercially reasonable terms of a responsible financial institution to refinance the portion of such Balloon Indebtedness coming due within such twelve (12)

month period), the principal and interest requirements shall be calculated as if such Long-term Indebtedness were initially issued (i) for a term of twenty (20) years (or the stated term of the Balloon Indebtedness, if shorter), (ii) with annual amortization calculated on a level debt service basis commencing upon completion of the acquisition, construction, renovation or replacement of any capital assets financed with the proceeds thereof or, if no capital assets are then being financed, upon the first anniversary of the date of issuance of such Long-term Indebtedness, and (iii) with interest at a rate equal to the Thirty-Year Revenue Bond Index most recently published in The Bond Buyer prior to the date of calculation;

- (c) if interest is capitalized with respect to any such Long-term Indebtedness, Debt Service on such Long-term Indebtedness shall be included in computations of Maximum Annual Debt Service and Maximum Annual Debt Service under the Master Ordinance only in proportion to the amount of interest payable in the then-current Fiscal Year from sources other than amounts capitalized to pay such interest;
- (d) debt service requirements on guaranties shall be assumed to be equal to one hundred percent (100%) of the principal and interest components on the indebtedness being guaranteed as if such indebtedness were Long-term Indebtedness of the Agency; provided that if (i) no payment has ever been made on such Guaranty or at least two years have elapsed from the last of such payments and (ii) a certificate of an Independent Certified Public Accountant to the effect that for the most recent Fiscal Year of the entity whose indebtedness is being guaranteed, Net Revenues of the entity was at least equal to two hundred percent (200%) of Maximum Annual Debt Service of such entity, then 20% of the principal and interest components on the indebtedness being guaranteed shall be included in calculations of Debt Service;
- (e) if moneys or Federal Securities have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service;
- (f) if such date of calculation occurs within twelve (12) months of the maturity or due date of any Long-term Indebtedness and there is a reserve fund for such Long-term Indebtedness, then an amount equal to such reserve fund shall not be included in computations of Debt Service for such Long-term Indebtedness;
- (g) amounts that may be required to reimburse a bank or other credit facility provider with respect to a reimbursement agreement or repayment contract for a letter of credit or similar credit facility shall not be included in computations of Debt Service to the extent that the underlying obligation secured by such credit facility has already been included in computations of Debt Service;
- (h) If the Agency has entered into a Financial Product Agreement resulting in a variable interest rate with respect to Long-term Indebtedness the interest on which is payable by its terms at a fixed rate, the interest rate on such Long-term Indebtedness for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Financial Product Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Long-term Indebtedness, minus (ii) the fixed rate paid by the Qualified Provider to the Agency, plus (iii) the lesser of (a) the interest rate cap, if any, provided by a Qualified Provider with respect to such Financial Product Agreement (but only during the period that such interest rate cap is in effect) and (b) one hundred twenty percent (120%) of the weighted average variable interest rate paid by the Agency to the Qualified Provider during the twenty-four (24) full calendar months immediately preceding the date of calculation of Maximum Annual Debt Service or, with respect to a Financial Product Agreement entered into during such 24-month period, (1) if the interest on the variable rate component of such Financial Product Agreement paid by the Agency to the Qualified Provider is excluded from gross income for federal income tax purposes, 120% of the average of the most recent 24-month published Bond Buyer 25 Revenue Bond Index, or (2) in any other case, one hundred twenty percent (120%) of the average of the prime rate of the Trustee (or the principal banking affiliate of the Trustee) in effect during such 24-month period; and
- (i) If a Financial Product Agreement resulting in a fixed interest rate has been entered into by the Agency with respect to a Long-term Indebtedness the interest on which is payable by its terms pursuant to a variable interest rate formula, and such Financial Product Agreement is coterminous with such Long-term Indebtedness, interest on such Long-term Indebtedness shall be included in the calculation of Maximum Annual Debt Service by including for each Fiscal Year an amount equal to the net interest expense of the Agency with respect to such Long-term Indebtedness in such Fiscal Year giving effect to such Financial Product Agreement.

Debt Service Fund

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Master Ordinance.

DTC

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

Federal Securities

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and
- (b) obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America.

Financial Product Agreement

"Financial Product Agreement" shall mean an interest rate swap, cap, collar or other hedge agreement having been entered into by the Agency with a Qualified Provider not for investment purposes but with respect to Indebtedness (which Indebtedness shall be specifically identified in the Certificate of the Agency) for the purpose of (1) reducing or otherwise managing the Agency's risk of interest rate changes or (2) effectively converting the Agency's interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

Fiscal Year

"Fiscal Year," as of the date of adoption of the Master Ordinance, means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other period hereafter selected and designated by the Agency as its official Fiscal Year period.

Improvement

"Improvement" means any addition, extension, improvement, equipment, machinery or other facilities to or for the Transmission System.

Independent Certified Public Accountant

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the Agency, and who, or each of whom:

- (a) is in fact independent and not under domination of the Agency;
- (b) does not have any substantial identity of interest, direct or indirect, with the Agency; and
- (c) is not and no member of which is connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Agency.

Independent Consultant

"Independent Consultant" means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or a firm of such consultants appointed and paid by the Agency, and who, or each of whom:

- (a) is in fact independent and not under domination of the Agency;
- (b) does not have any substantial identity of interest, direct or indirect, with the Agency; and
- (c) is not and no member of which is connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Agency.

Information Services

"Information Services" means Financial Information, Inc. "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North

Carolina 28217, Attention: Called Bond Dept.; Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the Issuer may designate in writing to the Trustee.

Interest Payment Date

"Interest Payment Date" means, with respect to the 2003 Series A Bonds, January 1 and July 1 of each year, beginning July 1, 2003, and with respect to any Parity Obligations, any date on which interest is due and payable thereon, and continuing so long as any Bonds or Parity Obligations remain Outstanding.

Interest Requirement

"Interest Requirement" means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount which will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on the Bonds on such next succeeding Interest Payment Date.

Long-Term Indebtedness

"Long-term Indebtedness" means Indebtedness having an original maturity greater than one (1) year or renewable at the option of the Agency for a period greater than one (1) year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

Maintenance and Operation Charges

"Maintenance and Operation Charges" are those charges designated as Maintenance and Operation Charges relating to the Transmission System assessed by the Agency pursuant to the Eleventh Amended Agreement.

Maintenance and Operation Costs

"Maintenance and Operation Costs" means, when used with respect to the Transmission System, the reasonable and necessary costs of and charges for maintenance, and operation of the Transmission System, but only if said costs and charges are in conformity with generally accepted accounting principles, and exclusive in all cases of depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, and also exclusive of all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the Agency.

Such Maintenance and Operation Costs of the Transmission System include (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Transmission System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs.

Said term does not include costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to or retirements from the Transmission System, which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and does not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Agency nor such property items which are capitalized pursuant to the then existing accounting practice of the Agency.

Master Ordinance

"Master Ordinance" means the Ordinance adopted by the Board of the Agency on December 3, 2002, as amended and supplemented to date as originally adopted December 28, 1970, including all Supplemental Ordinances thereto.

Maximum Annual Debt Service

"Maximum Annual Debt Service" means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

Municipal Bond Insurance Policy

"Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by the Municipal Bond Insurer insuring the payment, when due, of the principal of and interest on the Bonds.

Municipal Bond Insurer

"Municipal Bond Insurer" means, initially, MBIA Insurance Corporation or any other issuer of an insurance policy or other surety guaranteeing the schedule payments of principal and interest on any Bonds when due.

Net Revenues

"Net Revenues" means, with respect to the Transmission System, for any period of computation, the amount of the Gross Revenues received from the Transmission System during such period, less the amount of Maintenance and Operation Costs of the Transmission System becoming payable during such period.

Parity Obligations

"Parity Obligations" means the 2003 Series A Bonds, and other Revenue Bonds, variable rate, commercial paper, auction rate securities, notes or any other bonds or obligations authorized by law from time to time (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the Agency payable from and secured by a pledge of and lien upon any of the Net Revenues equally and ratably with the 2003 Series A Bonds of the Agency and any other Indebtedness issued or incurred and pursuant to a Parity Obligations Instrument, including without limitation the State Loan.

Parity Obligations Instrument

"Parity Obligations Instrument" means a Supplemental Ordinance, resolution, ordinance, trust indenture, contract, lease, installment sale agreement, or other financing arrangement adopted, entered into or executed and delivered by the Agency, and under which Parity Obligations are issued.

Principal Installment

"Principal Installment" means with respect to any particular Principal Installment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Installment Date as determined by the applicable Parity Obligations Instrument (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Installment Date as determined hereby and by the applicable Parity Obligations Instrument.

Qualified Surety Bond

"Qualified Surety Bond" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Master Ordinance provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is rated in the highest rating category from each Rating Agency which then maintains a rating on the Bonds; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Debt Service Fund for the purpose of making required payments.

Redemption Price

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Master Ordinance and the Parity Obligations Instrument pursuant to which the same was issued.

Request of the Agency

"Request of the Agency" means a request in writing signed by an Authorized Official of the Agency, or by any other officer of the Agency duly authorized by the Board of Directors for that purpose.

Reserve Account

"Reserve Account" means the Account by that name established and held by the Trustee pursuant to the Master Ordinance.

Reserve Requirement

"Reserve Requirement" means, for any particular Series, if required, an amount equal to the lesser of: (i) Maximum Annual Debt Service on such Series; (ii) ten percent (10%) of the principal amount of such Series; or (iii) 125% of Average Annual Debt Service on such Series.

Revenue Bonds

"Revenue Bonds" means the 2003 Series A Bonds together with all Parity Obligations and Subordinate Obligations issued under a Parity Obligations Instrument or a Subordinate Obligations Instrument.

Revenues

"Revenues," "Gross Revenues," or "Revenues of the Transmission System" means all charges received for, and all other income and receipts derived by the Agency from, the ownership or operation of the Transmission System, or arising from the Transmission System, including income derived from the sale or use of water or charges or rentals for capacity in any facilities of the Transmission System, together with any receipts derived from the sale of any property pertaining to the Transmission System or incidental to the operation of the Transmission System (including the sale of electrical power), receipts derived from the investment of funds held by the Agency or the Trustee under the Master Ordinance, or from any services performed by the Agency in connection with or incidental to the Transmission System, or from any other source whatsoever directly or indirectly derived from the Transmission System including Capital Charges and Maintenance and Operation Charges relating to the Transmission System received from any Water Contractor under any Agreement, but exclusive in every case (1) of any moneys derived from the levy or collection of taxes upon any taxable property in the Agency, (2) of capital cost cash payments and interest thereon received by the Agency from North Marin Water District, pursuant to Section 4.8 of the Eleventh Amended Agreement, (3) of other capital cost cash payments and interest thereon received by the Agency in connection with the future expansion of the Transmission System and which are made to pay all or a pro rata portion of such expansion and are in lieu of periodic payments for water which would amortize the capital cost of such improvements pursuant to an Agreement, (4) of any monies derived pursuant to Section 4.17 of the Eleventh Amended Agreement, (5) of any monies derived pursuant to the Supplemental Agreement with respect to the Russian River Conservation Charge and the Russian River Project Charge, (6) of any moneys received from Marin Municipal Water District for firm water supply pursuant to Section 8 of Exhibit B of the Supplemental Agreement, and (7) of any monies received under any Agreement with respect to the Russian River Project.

Russian River Project

"Russian River Project" means the cooperative endeavor of the United States and the Agency consisting of Coyote Valley Dam, Warm Springs Dam, and the water supply produced thereby and the associated facilities such as downstream bank stabilization works, recreational facilities, and fish mitigation and enhancement facilities.

Serial Bonds

"Serial Bonds" means all Bonds other than Term Bonds.

State

"State" means the State of California.

Subordinate Obligations

"Subordinate Obligations" means all subordinated Revenue Bonds, fixed or variable rate, commercial paper, auction rate securities, notes or any other bonds or obligations authorized by law from time to time (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the Agency payable from and secured by a pledge of and junior lien upon any of the Net Revenues subordinate and junior to the lien of the Parity Obligations, and any other Indebtedness payable from Net Revenues issued or incurred pursuant to a Subordinate Obligation Instrument.

Subordinate Obligations Instrument

"Subordinate Obligations Instrument" means a Supplemental Ordinance, resolution, ordinance, trust indenture, contract lease, installment sale agreement, or other financing arrangement adopted, entered into or executed and delivered by the Agency, and under which Subordinate Obligations are issued.

Supplemental Ordinance

"Supplemental Ordinance" means the Sixth Supplemental Ordinance and any ordinance then in full force and effect which has been duly adopted by the Board under the Act, or any act supplementary thereto or amendatory thereof, amendatory of or supplemental to the Master Ordinance; but only if and to the extent that such Supplemental Ordinance is specifically authorized.

Term Bonds

"Term Bonds" means, with respect to any 2003 Series A Bonds or any Parity Obligations, such 2003 Series A Bonds or Parity Obligations which are payable prior to their stated maturity by operation of Sinking Fund Installments.

Transmission System

"Transmission System" means the water transmission and distribution system now operated by the Agency, or contractually inuring to the benefit of the Agency to the extent of such contractual inurement, including pumping plants, wells, intake works, aqueducts, intercepting and connecting pipelines, together with additional water storage facilities, pumping plants, water treatment facilities, pipelines and distribution facilities, and the hydroelectric plant located and Warm Springs Dam, together with all additions, betterments and Improvements thereto and all other works, properties or structures now or hereafter used to deliver water to any Water Contractor, but excluding the Russian River Project.

Treasurer

"Treasurer" means the Sonoma County Treasurer.

Water Revenue Bonds

"Water Revenue Bonds" means the 2003 Series A Bonds and any other Series of fixed rate revenue bonds issued under the Master Ordinance.

Funds and Accounts

Reserve Account. On the Closing Date the Agency shall satisfy the Reserve Requirement by depositing with the Trustee proceeds of the 2003 Series A Bonds. The Reserve Requirement for an issue of Parity Bonds may be increased to an amount greater than the Reserve Requirement by any Parity Bonds Instrument under which any Parity Bonds are issued.

Cost of Issuance Fund. There is created in the Master Ordinance a fund to be known as the "Sonoma County Revenue Bonds 2003 Series A Cost of Issuance Fund" (the "Cost of Issuance Fund"), which shall be held in trust by the Agency and used solely for the purpose of the payment of Costs of Issuance upon receipt by the Agency of invoices therefor, on or after the Closing Date. Any funds remaining in the Cost of Issuance Fund 90 days after the Closing Date, shall be transferred by the Agency to the Trustee for deposit in the Debt Service Fund.

Issuance of Parity Obligations

In addition to the 2003 Series A Bonds, the Agency may, by Parity Obligations Instrument, issue or incur Parity Obligations payable from Net Revenues to be derived from the Transmission System, to provide financing for the Transmission System, in such principal amount as shall be determined by the Agency. The Agency may issue or incur any such Parity Obligations subject to the following specific conditions which are made conditions precedent to the issuance and delivery of such Parity Obligations:

- (a) The Agency shall be in compliance with all covenants set forth in the Master Ordinance.
- (b) The Net Revenues of the Transmission System, calculated on generally acceptable accounting principles as applicable to governmental entities, as shown by the books of the Agency for the latest Fiscal Year or any more recent twelve (12) month period selected by the Agency ending not more than sixty (60) days prior to the adoption of the Parity Obligations Instrument pursuant to which such Parity Obligations are issued, as shown by the books of the Agency, plus, at the option of the Agency, any or all of the items hereinafter in this paragraph designated (i), (ii), and (iii), shall at least equal One Hundred Fifteen percent (115%) of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Parity Obligations to be Outstanding immediately subsequent to the issuance of such Parity Obligations which have a lien on Net Revenues of the Transmission System. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Obligations are the following:

- (i) An allowance for Net Revenues from Capital Charges relating to the Transmission System assessed by the Agency during any part of such Fiscal Year or such twelve (12) month period;
 - (ii) An allowance for earnings arising from any increase in the Maintenance and Operation Charges relating to the Transmission System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Maintenance and Operation Charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown in the written report of an Independent Consultant engaged by the Agency; and
 - (iii) An allowance from any increase in Capital Charges, Maintenance and Operation Charges or other Charges assessed by the Agency and relating to the Transmission System under any Agreement or other contract between the Agency and any Water Contractor during any part of such Fiscal Year of such twelve (12) month period.
- (c) The Parity Obligations Instrument providing for the issuance of such Parity Obligations under the Master Ordinance shall provide that:
- (i) The proceeds of such Parity Obligations shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, Improvements or extensions of existing facilities within the Transmission System, or otherwise for facilities, improvements or property which the Agency determines are of benefit to the Transmission System, or for the purpose of refunding any Obligations in whole or in part, including all costs (including costs of issuing such Parity Obligations and including capitalized interest on such Parity Obligations during any period which the Agency deems necessary or advisable) relating thereto;
 - (ii) Money or a Qualified Surety Bond as authorized by Section 5.05(b) of the Master Ordinance may, but need not, be deposited in a Reserve Account for such Parity Obligations from the proceeds of the sale of such Parity Obligations or otherwise equal to the Reserve Requirement; provided however, the Reserve Account shall only secure the Series of Parity Obligations in the related Parity Obligations Instrument unless otherwise provided as set forth in Section 18.03 of the Master Ordinance.

State Loans.

The Agency has borrowed money from the State under a Loan Agreement dated March 15, 2001, as amended October 23, 2002, in the principal amount of \$15,858,989 ("State Loan") to finance improvements to the Transmission System. The Agency will, pursuant to the Sixth Supplemental Ordinance pledge a lien upon its Net Revenues to secure the principal, interest and reserve payments due on the State Loan as a Parity Obligation with the 2003 Series A Bonds and all other Parity Obligations to be issued under the Ordinance.

Limit on Indebtedness.

Nothing in the Master Ordinance shall prohibit or impair the authority of the Agency to issue Subordinate Obligations payable from Net Revenues which are subordinate to the lien established under the Master Ordinance, upon such terms and in such principal amounts as the Agency may determine; provided, that the Agency may issue or incur any such Subordinate Obligations subject to the provisions of the Master Ordinance and the terms of a Supplemental Ordinance.

Pledge of Net Revenues; Agency Fund.

- (a) The Agency for the benefit of the Owners, places a lien upon that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is hereby irrevocably pledged to the punctual payment of the principal or Redemption Price and interest on the Bonds, and any Parity Obligations. The Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by Article V of the Master Ordinance. Said pledge shall constitute a first, direct and exclusive charge and lien on the Net Revenues, for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms thereof, and any Parity Obligations.
- (b) The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the Agency is not liable and the credit or taxing power of the Agency is

not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds shall not compel the exercise of the taxing power by the Agency or the forfeiture of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Transmission System. The Net Revenues shall immediately be subject to the pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the Net Revenues and be effective, binding, and enforceable against the pledgor, its successors, purchasers of the Net Revenues, creditors, and all others asserting the rights therein, to the extent set forth, and in accordance with, the Master Ordinance irrespective of whether those parties have notice of the pledge and without the need for any physical delivery, recordation, filing, or further act.

Receipt and Deposit of Revenues.

The Agency covenants and agrees that all Gross Revenues, when and as received, will be received and held by the Agency in trust under the Master Ordinance and will be deposited by the Agency in a fund to be established by the Controller and designated as the "Agency Fund." The Gross Revenues will be accounted for through and held in trust in the Agency Fund and the Agency shall only have such beneficial right or interest in any of such money as in the Master Ordinance provided. All such Gross Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes in Article V of the Master Ordinance set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Agency.

Establishment of Funds and Accounts and Allocation of Revenues thereto.

The Debt Service Fund, as a special fund, and the Redemption Account and the Reserve Account, as special accounts therein, are created by Article V of the Master Ordinance.

The Debt Service Fund and the Redemption Account and the Reserve Account, if required, shall be held and maintained by the Trustee.

All Gross Revenues shall be held in trust by the Treasurer in the Agency Fund and shall be applied, transferred, used and withdrawn only for the purposes hereinafter authorized. Provided, however, if the Agency issues Bonds under the Master Ordinance, it may establish such further Funds and Accounts pursuant to a Supplemental Ordinance so long as Parity Obligations maintain a lien on Net Revenues senior to the lien of Subordinate Obligations.

- (1) **Maintenance and Operation Costs.** The Treasurer shall first pay from the moneys in the Agency Fund the budgeted Maintenance and Operation Costs as such Maintenance and Operation Costs become due and payable.
- (2) **Parity Debt Service Fund.** On or before the second Business Day prior to each Interest Payment Date, beginning as provided in the Supplemental Ordinance issuing the Parity Obligations, the Treasurer shall transfer from the Agency Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Obligations on the next succeeding Interest Payment Date, plus (ii) on or before the second Business Day prior to each Principal Installment Date, beginning as provided in the Supplemental Ordinance issuing the Parity Obligations, an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Parity Obligations on the next succeeding Principal Installment Date. All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Parity Obligations.
- (3) **Parity Reserve Account.** After making the payments, allocations and transfers provided for in subsections (1) and (2) above, if the Supplemental Ordinance for Parity Obligations requires a Reserve Account, then if the balance in the Reserve Account is less than the Reserve Requirement, the deficiency shall be restored by transfers from the first moneys which become available in the Agency Fund to the Trustee for deposit in the Reserve Account, pro rata among each Series, such transfers to be made no later than the times provided in the Master Ordinance, provided the Agency shall apply available monies to reinstate the Qualified Surety Bond in full prior to replenishment of cash held in the Reserve Account.
- (4) **Financial Product Agreements for Parity Obligations.** After making the payments, allocations and transfers provided for in subsection (1) through (3) above, the Treasurer shall transfer to the provider under the Financial Product Agreement any amounts due under the Financial Product Agreement

- (5) **Subordinate Debt Service Fund.** After making the payments, allocation, and transfers provided for in Sections (1) through (4) above, on or before the second Business Day prior to each Interest Payment Date, beginning as provided in the Supplemental Ordinance issuing the Bonds, the Treasurer shall transfer from the Agency Fund to the Trustee for deposit in the Subordinate Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, plus (ii) on or before the second Business Day prior to each Principal Installment Date, beginning as provided in the Supplemental Ordinance issuing the Bonds, an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Bonds on the next succeeding Principal Installment Date. All interest earnings and profits or losses on the investment of amounts in the Subordinate Debt Service Fund shall be deposited in or charged to the Subordinate Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Subordinate Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Bonds.
- (6) **Subordinate Reserve Account.** After making the payments, allocations and transfers provided for in subsections (1) and (5) above, if the Supplemental Ordinance requires a Subordinate Reserve Account, then if the balance in the Subordinate Reserve Account is less than the Subordinate Reserve Requirement, the deficiency shall be restored by transfers from the first moneys which become available in the Agency Fund to the Trustee for deposit in the Subordinate Reserve Account, such transfers to be made no later than the times provided in the Master Ordinance.
- (7) **Financial Product Agreements for Subordinate Obligations.** After making the payments, allocations and transfers provided for in subsection (1) through (6) above, the Treasurer shall transfer to the provider under the Financial Product Agreement any amounts due under the Financial Product Agreement
- (8) **Surplus.** As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (1) to (7), inclusive, any moneys remaining in the Agency Fund may at any time be treated as surplus and applied for any lawful purpose.

Application of Debt Service Fund.

- (a) The Trustee shall withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is hereby authorized to apply the same to the principal of such interest by check or draft (or by wire transfer, as the case may be).
- (b) The Trustee shall withdraw from the Debt Service Fund, prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Serial Bonds, if any, maturing on said Principal Installment Date and any Sinking Fund Installments due and payable on said Principal Installment Date, and shall cause the same to be applied to the payment of the principal of said Bonds when due and is hereby authorized to apply the same to such payment upon presentation and surrender of the Bonds as they become due and payable.
- (c) All withdrawals and transfers under the provisions of subsection (a) or subsection (b) of this Section shall be made not earlier than one (1) day prior to the Interest Payment Date or Principal Installment Date to which they relate, and the amount so withdrawn or transferred shall, for the purposes of this Ordinance, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Installment Date.

Application of Reserve Account.

- (a) **In General.** If at any time there shall not be sufficient amounts in the Debt Service Fund to make payment of Principal Installments or Redemption Price of or interest on the Bonds, the Trustee shall provide notice of such fact to the Agency (provided that no such notice shall be required to be given with respect to a withdrawal of amounts in excess of the Reserve Requirement or of withdrawals in connection with the refunding of the Bonds in whole or in part) and draw on the Reserve Account and pay into the appropriate fund or account the amount of the deficiency. Any amounts in the Reserve Account in excess of the Reserve Requirement (whether derived from interest or gain on investment or otherwise) shall, on the date provided in the Supplemental Ordinance authorizing that Series of Bonds, be paid by the Trustee to the Agency for deposit in the Agency Fund.
- (b) **Qualified Surety Bond.** In the event the Agency satisfies the Reserve Requirement by delivering to the Trustee a Qualified Surety Bond, such Qualified Surety Bond, and any subsequent Qualified Surety Bond, shall provide that the Trustee is entitled to draw amounts thereunder by tendering to the Qualified Provider at least three days prior to an Interest Payment Date a demand for payment under the Qualified Surety Bond and to make transfers from the Reserve Account to the Debt Service Fund in the event of a deficiency in any such account, provided that, in any

such event, the Trustee shall first apply to any such deficiency the amount of cash (including cash represented by investments) then on deposit in the Reserve Account. The Trustee shall maintain records, verified with the Qualified Provider as to the amount available to be drawn under the Qualified Surety Bond and as to the amounts paid and owing the Qualified Provider.

- (c) **Cash to the Agency.** To the extent that the Reserve Requirement has been satisfied by delivery of a Qualified Surety Bond under the Master Ordinance, any cash or Authorized Investments on deposit in the Reserve Account shall be paid by the Trustee to the Agency.

Application of Redemption Account.

On or before the date which is at least two Business Days prior to any Interest Payment Date on which Bonds are subject to optional redemption or on which any Parity Obligations are subject to optional redemption to the provisions of the Parity Obligations Instrument authorizing such Parity Obligations, the Treasurer shall transfer from the Agency Fund to the Trustee for deposit in the Redemption Account an amount at least equal to the Redemption Price (excluding accrued interest, which is payable from the Debt Service Fund) of such Bonds to be redeemed on such Interest Payment Date. In addition, the Treasurer shall transfer to the Trustee for deposit in the Redemption Account all amounts required to redeem any Bonds which are subject to optional redemption and any Parity Obligations which are subject to optional redemption pursuant to any similar provision of the Parity Obligations Instrument authorizing such Parity Obligations, when and as such amounts become available. Amounts in the Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption price of Bonds to be redeemed and to pay the purchase price in the same manner and subject to the same limitation as purchasers of Bonds under the Master Ordinance or the Redemption Price of any Parity Obligations to be redeemed pursuant to similar provisions of the Parity Obligations Instrument authorizing such Parity Obligations. If after all of the Bonds have been paid or deemed to have been paid, there are moneys remaining in the Redemption Account, such moneys shall be transferred by the Trustee to the Treasurer for deposit in the Agency Fund.

Procedures for Making a Claim on the Insurance Policy.

If, on the business day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Master Ordinance, moneys sufficient to pay the principal of and interest on the 2003 Series A Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the 2003 Series A Bonds and the amount required to pay principal of the 2003 Series A Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Bondholders who surrender their Bonds a new Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered. The Trustee shall designate any portion of payment of principal on Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Issuer on any Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the insurer into the Policy Payments Account and the allocation of such funds to payment of interest on and principal paid in respect of any Bond. The insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy the Trustee shall establish a separate special purpose trust account for the benefit of Bondholders referred to as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Bondholders in the same manner as principal and interest payments are to be made with respect to the 2003 Series A Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Covenants of the Agency: Special Tax Covenants

Punctual Payment.

The Agency will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Master Ordinance, but only out of Net Revenues as provided in the Master Ordinance, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Master Ordinance and all supplemental ordinances and resolutions and of the Bonds.

Against Encumbrances.

The Agency will not create, or permit the creation of, any mortgage or lien upon the Transmission System or any property essential to the proper operation of the Transmission System or to the maintenance of the Net Revenues. The Agency will not create, or permit the creation of, any pledge, lien, charge or encumbrance upon the Net Revenues except as provided in the Master Ordinance.

Against Sale, Eminent Domain.

- (a) The Agency will not sell, lease or otherwise dispose of the Transmission System or any part thereof essential to the proper operation of the Transmission System or to the maintenance of the Net Revenues except as expressly permitted in the Master Ordinance. The Agency will not enter into any lease or agreement which impairs the operation of the Transmission System or any part thereof necessary to secure adequate Net Revenues for the payment of the interest on and principal or Redemption Price, if any, on the Bonds, or which would otherwise impair the rights of the Holders with respect to the Net Revenues or the operation of the Transmission System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Transmission System, or any material or equipment which has worn out, may be disposed of in such a manner as the Agency determines.
- (b) If all or any part of the Transmission System shall be taken by eminent domain proceedings, the Net Proceeds realized by the Agency therefrom shall be deposited by the Agency with the Trustee in a special fund in trust and applied by the Agency to the cost of acquiring or constructing or financing Improvements to the Transmission System if (A) the Agency first secures and files with the Trustee a Certificate of the Agency showing (i) the estimated loss in annual Net Revenues, if any, suffered, or to be suffered, by the Agency by reason of such eminent domain proceedings, (ii) a general description of the Improvements to the Transmission System then proposed to be acquired or constructed by the Agency from such Net Proceeds, and (iii) an estimate of the additional Net Revenues to be derived from such Improvements; and (B) the Trustee, on the basis of such Certificate of the Agency, determines that such additional Net Revenues will sufficiently offset the loss of Net Revenues, resulting from such eminent domain proceedings so impaired, which determination shall be final and conclusive. If the foregoing conditions are met, the Agency shall then promptly proceed with the acquisition or construction or financing of such Improvements substantially in accordance with such Certificate of the Agency and payments therefor shall be made by the Trustee from such Net Proceeds and from other moneys of the Agency lawfully available therefor, and any balance of such net Proceeds not required by the Agency for the purposes aforesaid shall be deposited in the Agency Fund. If the foregoing conditions are not met, then such Net Proceeds shall be applied by the Trustee pro rata to the redemption or purchase of the Bonds of each Series then Outstanding in the proportion which the principal amount of the Outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then Outstanding. If the Trustee is unable to purchase or redeem Bonds in amounts sufficient to exhaust the available moneys allocable to each such Series, the remainder of such moneys for each such Series shall be held in trust by the Trustee and applied to the payment of the Bonds of such Series as the same become due by their terms, and, pending such application, such remaining moneys may be invested by the Trustee in the manner provided in the Master Ordinance for the investment of moneys in the Reserve Account.

Maintenance and Operation of Transmission System in Efficient and Economical Manner.

The Agency covenants and agrees to maintain and operate the Transmission System in an efficient and economical manner and to operate, maintain and preserve the Transmission System in good repair and working order.

Payment of Taxes, Etc.

The Agency will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Transmission System or any part thereof or upon any Net Revenues when the same shall be come due. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Transmission System or any part thereof, and will comply with all requirements with respect to any state or federal grants

received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Transmission System.

Insurance.

The Agency covenants that it shall at all times maintain such insurance on the Transmission System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Transmission System shall be damaged or destroyed, such part shall be restored to use. The Net Proceeds of insurance against accident to or destruction of the physical Transmission System shall be used for repairing or rebuilding the damaged or destroyed portions of the Transmission System, (to the extent that such repair or rebuilding is determined by the Agency to be useful or of continuing value to the Transmission System) and to the extent not so applied, shall be applied to the redemption of the Outstanding Bonds issued on a pro rata basis, and for such purpose shall be paid into the Redemption Account.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the Agency, or may be in the form of self-insurance by the Agency. The Agency shall establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

Accounting Records and Financial Statements.

The Agency covenants that it shall keep proper books of record and accounts of the Transmission System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Transmission System. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The Agency covenants that it will cause the books and accounts of the Transmission System to be audited annually by an Independent Certified Public Accountant and will make available for inspection by the Bond Owners at the office of the Trustee in San Francisco, California, upon reasonable request, a copy of the report of such Independent Certified Public Accountant.

The Agency covenants that it will cause to be prepared annually, not more than one hundred eighty (180) days after the close of each Fiscal Year, as a part of its regular annual financial report, a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail. The Agency shall furnish a copy of the statement to the Trustee, and upon written request, to any Bond Owner.

Amounts of Rates and Charges.

- (a) The Agency shall fix, prescribe, revise and collect Charges for the Transmission System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:
 - (i) all Maintenance and Operation Costs of the Transmission System estimated by the Agency to become due and payable in such Fiscal Year;
 - (ii) the Debt Service on the Bonds and the Parity Obligations;
 - (iii) all other payments required for compliance with the Master Ordinance and the Parity Obligation Instruments pursuant to which any Parity Obligations relating to the Transmission System shall have been issued;
 - (iv) the Debt Service on the Subordinate Obligations;
 - (v) any other payments required for compliance pursuant to the Subordinate Obligation Instruments relating to the Transmission System shall have been issued; and
 - (vi) all payments required to meet any other obligations or Indebtedness of the Agency which are charges, liens, encumbrances upon or payable from the Net Revenues of the Transmission System.

Discharge of Claims.

The Agency covenants that in order to fully preserve and protect the priority and security of the Bonds, the Agency shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Transmission System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The Agency shall also pay from the Net Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Transmission System or upon any part thereof or upon any of the Net Revenues therefrom.

Acquisition, Construction or Financing Improvements to the Transmission System.

The Agency will acquire, construct, or finance Improvements to the Transmission System to be financed with the proceeds of any Bonds with all practicable dispatch, and such Improvements will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

Protection of Security and Rights of Owners.

The Agency will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Bonds by the Agency, such Bonds shall be incontestable by the Agency.

Maintenance of Tax-Exemption.

The Agency shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Bonds.

Continuing Disclosure.

The Agency and the Trustee covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to each party. Notwithstanding any other provision of the Master Ordinance, failure of the Agency or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered a Default; however, the Trustee, at the written request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall (but only to the extent indemnified to its satisfaction from and against any loss, cost, liability or expense of any kind whatsoever, including without limitation, fees and expenses of its attorneys and additional fees and expenses of the Trustee) or any Bondholder or Beneficial Owner (as defined in the Continuing Disclosure Agreement) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency or the Trustee, as the case may be, to comply with its obligations under the Master Ordinance.

No Arbitrage.

The Agency shall not take, nor permit nor suffer to be taken any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be "arbitrage bonds" within the meaning of the Tax Code.

Information Report.

The Controller is directed to assure the filing of an information report for the 2003 Series A Bonds in compliance with Section 149(e) of the Tax Code.

Private Activity Bond Limitation.

The Agency shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business test of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

Federal Guarantee Prohibition.

The Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2003 Series A Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

Rebate Requirement.

The Agency shall take any and all actions necessary to assure compliance with Section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

Amendments by Consent of Bond Owners.

The Master Ordinance and the rights and obligations of the Agency and the Owners of the Bonds may be modified or amended at any time by a Supplemental Ordinance which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Series of Bonds then Outstanding to be so modified or amended, exclusive of bonds disqualified as provided in the Master Ordinance, are filed with the Trustee and exclusive of the Owners of any other Series of Bonds, provided however, with respect to any Bonds that are fully insured or credit enhanced, the Bond Insurer or credit enhancer shall be deemed owner of such Bonds for purposes of this Section. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modifications, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee. Copies of any amendments consented to by the Municipal Bond Insurer shall be forwarded to the Rating Agency by the Trustee as provided in the Master Ordinance.

Amendment without Consent of Bondholders.

The Master Ordinance and the rights and obligations of the Agency and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Ordinance which shall become binding upon execution and delivery, without consent of any Bond Owners, but only to the extent permitted by law and only for one or more of the following purposes:

- (a) to add to the covenants and agreements of the Agency in the Master Ordinance contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the Agency; or
- (b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Master Ordinance, or in any other respect whatsoever as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not adversely affect the interests of the Owners of the Bonds;
- (c) to provide for the issuance of any Parity Obligations, and to provide the terms and conditions under which such Parity Obligations may be issued, including but not limited to the establishment of special funds and accounts relating to such Parity Obligations and any other provisions relating solely to such Parity Obligations, subject to and in accordance with the provisions of the Master Ordinance; or
- (d) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxations of interest on the Bonds.

Any amendments which require Bond Owner consent pursuant to the Master Ordinance shall also require the prior written consent of the Municipal Bond Insurer. Notices regarding any such proposed amendments shall be provided to the Municipal Bond Insurer. Copies of any amendments consented to by the Municipal Bond Insurer shall be forwarded to the Rating Agency by the Trustee as provided in the Master Ordinance.

Disqualified Bonds.

Bonds owned or held by or for the account of the Agency (but excluding Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds in the Master Ordinance provided for, and shall not be entitled to consent to, or take any other action in the Master Ordinance provided for.

Endorsement or Replacement of Bonds after Amendment.

After the effective date of any amendment, the Agency may determine that the Bonds shall bear a notation, by endorsement in form approved by the Agency, as to such action, and in that case upon demand of the Owner, of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Principal Corporate Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the Agency shall so determine, new Bonds so modified as,

in the opinion of the Agency, shall be necessary to conform to such bond Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the principal Corporate Trust Office of the Trustee, without cost to each Bond Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

Effect of Modification or Amendment.

When any Supplemental Ordinance modifying or amending the provisions of the Master Ordinance shall become binding, as provided in the Master Ordinance, the Master Ordinance shall be and be deemed to be modified and amended in accordance therewith and the respective rights, duties and obligations under the Master Ordinance of the Agency, the Trustee and all holders of Bonds outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendments, and all the terms and conditions of any such Supplemental Ordinance shall be and be deemed to be part of the terms and conditions of the Master Ordinance for any and all purposes.

Amendment by Mutual Consent.

The provisions of Article VIII of the Master Ordinance shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held by him, provided, that due notation thereof is made on such Bond.

Events of Default and Acceleration of Maturities.

The following events shall be Events of Default under the Master Ordinance:

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;
- (b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;
- (c) Default by Agency in the observance of any of the covenants, agreements or conditions on its part in the Master Ordinance or in any Parity Obligations Instrument or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after the Agency shall have been given notice in writing of such default by the Trustee; or
- (d) The filing by the Agency of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Agency, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Agency or of the whole or any substantial part of its property.

Upon the occurrence of an Event of Default, the Trustee may, with the consent of the Municipal Bond Insurer, and shall, at the direction of the owners of a majority of the principal amount of the Bonds, with the consent of the Municipal Bond Insurer, by written notice to the Agency, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Master Ordinance or in the Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the rate of interest per annum then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee and those of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the Bonds having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, by written notice to the Agency and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration.

All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Master Ordinance shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid:

First to the payment of the costs and expenses of the Trustee and of Bond Owners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of Article IX of the Master Ordinance, including reasonable compensation to its agents, attorneys and counsel; and

Second to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the rate of interest then borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably in proportion to the aggregate of such interest, principal and interest on overdue amounts.

Other Remedies; Rights of Bond Owners.

Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in the Master Ordinance, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Master Ordinance.

If an Event of Default shall have occurred and be continuing and if requested to do so by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and indemnified as provided in the Master Ordinance, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by Article IX of the Master Ordinance, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of the Ordinance conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Notwithstanding any other provisions of the Master Ordinance, the Municipal Bond Insurer shall have the right, so long as it is not in default under the Municipal Bond Insurance Policy, to direct the remedies to be taken upon any Event of Default and the Municipal Bond Insurer's consent shall be required for remedial action taken by the Trustee or the Authority under the Master Ordinance.

Power of Trustee to Control Proceedings.

In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the Bonds issued, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Appointment of Receivers.

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under the Master Ordinance, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and other amounts pledged under the Master Ordinance, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver.

Nothing in Article IX of the Master Ordinance or in any other provision of the Master Ordinance, or the Bonds, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, out of the Net Revenues and other moneys pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by Article IX of the Master Ordinance may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bond Owners, the Agency and the Bond Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Limitation on Agency's Obligation.

Nothing in the Master Ordinance contained shall be deemed to require the Agency to advance any moneys derived from the levy or collection of taxes upon any taxable property in the Agency for the payment of the principal of or interest on the Bonds or for the due performance by the Agency of any covenant in the Master Ordinance contained. Neither the credit nor the taxing power of the Agency is pledged for the payment of the principal of or interest on the Bonds, and the general fund of the Agency is not liable for the payment of the Bonds or the interest thereon. The holders of the Bonds cannot compel the exercise of the taxing power by the Agency or the forfeiture of its property. The principal of and interest on the Bonds and any premiums upon the redemption of any thereof are not a debt of the Agency nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues except the Revenues of the Transmission System and other funds that may be legally applied, pledged or otherwise made available to their payment as in the Master Ordinance provided. Neither the Agency nor any officer thereof shall be liable or obligated for the payment of the principal of or interest on the Bonds, or for any payment agreed to be made, or contemplated to be made, pursuant to any of the terms of the Master Ordinance, save and except solely and exclusively from the Revenues, or from the proceeds of the Bonds. Nothing shall prevent the Agency from making advances of its own funds howsoever derived to any of the uses and purposes in the Master Ordinance mentioned, provided such funds are derived from any source legally available for such purpose and may be used by the Agency for such purpose without incurring indebtedness. No property or rights of the Agency shall ever be subject to forfeiture by reason of any default on the part of the Agency, provided, however, that nothing shall operate to excuse the Agency from making the payments required to be made for the benefit of the holders of the Bonds.

Rights and Remedies of Bond Owners.

No Owner of any Bond issued under the Master Ordinance shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Master Ordinance, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Master Ordinance, except in the manner provided, and that all proceedings at law or in equity to enforce any provision of the Master

Ordinance shall be instituted, had and maintained in the manner provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as provided in the Master Ordinance or to institute suit for the enforcement of any such payment, shall nor be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of the Master Ordinance.

Termination of Proceedings.

In case the Trustee shall have proceeded to enforce any right under the Master Ordinance by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Agency, the Trustee and the Bond Owners shall be restored to their former positions and rights, respectively, with regard to the property subject to this Ordinance, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Municipal Bond Insurer as Third-Party Beneficiary.

To the extent that the Master Ordinance confers upon or gives or grants to the Municipal Bond Insurer any right, remedy or claim under or by reason of the Master Ordinance, the Municipal Bond Insurer is hereby explicitly recognized as being a third-party beneficiary and may enforce any such right remedy or claim conferred, given or granted under the Master Ordinance.

Limited Liability of the Agency.

Notwithstanding anything in the Master Ordinance contained, the Agency shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants in the Master Ordinance contained (except to the extent any such covenants are expressly payable under the Master Ordinance from the Gross Revenues). The Agency may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Agency for such purpose without incurring indebtedness.

Waiver of Personal Liability.

No officer, agent or employee of the Agency shall be individually or personally liable for the payment of the interest on or principal of the Bonds; but nothing contained in the Master Ordinance shall relieve any such officer, agent or employee from the performance of a official duty provided by law.

Parties Interested In the Master Ordinance.

- (a) Nothing in the Master Ordinance expressed or implied is intended or shall construed to confer upon, or to give to, any person or entity, other than the Agency, the Trustee, the Paying Agent, the Municipal Bond Insurer and the Owners any right, remedy or claim under or by reason of the Master Ordinance, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Master Ordinance contained by and on behalf of the Agency shall be for the sole and exclusive benefit of the Agency, the Trustee, the Municipal Bond Insurer and the Owners.
- (b) Notwithstanding any other provision of the Master Ordinance, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Master Ordinance, the Trustee shall consider the effect on the Owners as if there was no Municipal Bond Insurance Policy.

Discharge of Indebtedness; Defeasance.

If the Agency shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

- (a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Master Ordinance, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

- (c) by depositing with a qualified escrow holder, in trust, Defeasance Obligations in such amount as the Agency (verified by an independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to the Master Ordinance, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal interest and redemption premiums, if any) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to Section/or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the Agency, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided in this Ordinance with respect to such Bonds, and all other pecuniary obligations of the Agency under the Master Ordinance with respect to all such Bonds; shall cease and terminate, except only the obligation of the Agency to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the Agency.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

To accomplish defeasance the Agency shall cause to be delivered (i) a report of an Independent Certified Public Accountant verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or earlier redemption date ("Verification"), (ii) an escrow deposit agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Master Ordinance; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed to the Agency and the Trustee.

Notwithstanding anything to the contrary, in the event that the principal of and/or interest on the Bonds shall be paid by the Municipal Bond Insurer pursuant to the Municipal Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Agency, and the assignment and pledge of the Net Revenues and all covenants, agreements and other obligations of the Agency to the registered owners shall continue to exist and shall run to the benefit of the Municipal Bond Insurer, and the Municipal Bond Insurer shall be subrogated to the rights of such registered owners.

APPENDIX B
SONOMA COUNTY WATER AGENCY FINANCIAL STATEMENTS

The following pages present excerpts from the Agency's financial statements for the Fiscal Year ending June 30, 2002. The statements present financial information on the Agency's water and sewer enterprise funds. A complete copy of the Agency's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2002 is available from the Agency.

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Sonoma County Water Agency
Basic Financial Statements
Year Ended June 30, 2002



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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
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Independent Auditors' Report

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency**, (the "Water Agency"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2002, which collectively comprise the Water Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Water Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency** as of June 30, 2002, and the respective changes in financial position, the results of its operations and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, Flood Control Fund, Warm Springs Dam Fund and Debt Service Fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the County adopted the provisions of the Governmental Accounting Standards Board (GASB), Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and restated beginning fund balances as described in Note C, as of July 1, 2001.

Offices in
Santa Rosa,
Napa and
Petaluma

Independent Auditors' Report (continued) Sonoma County Water Agency

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2002, on our consideration of the Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 3 - 14 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying basic financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the **Sonoma County Water Agency**. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Santa Rosa, California
September 17, 2002

Management's Discussion and Analysis

Year Ended June 30, 2002

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 29) and the accompanying notes to the financial statements (pages 30 - 58).

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$301,318,658 (net assets). Of this amount, \$67,784,200 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$16,115,698. The governmental activities accounted for \$9,842,587 of this increase while the balance of \$6,273,111 was generated by the business type activities.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$93,721,433, an increase of \$8,797,035 in comparison with the prior year. Approximately 26% of this total amount, \$24,602,405, is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was \$4,635,178, or 21% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Water Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

Both the government-wide financial statements distinguish functions of the Water Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Water Agency include general government, flood control, Warm Springs Dam and water storage. The business-type activities of the Water Agency include water transmission and sanitation services.

The government-wide financial statements can be found on pages 15 - 17 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Water Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Water Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue funds (Flood Control and Warm Springs Dam), and the debt service fund, all of which are considered to be major funds.

The Water Agency adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18 - 24 of this report.

Overview of the Financial Statements (continued)

Proprietary funds

The Water Agency maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment and facilities rental activities. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sanitation services, both of which are considered to be major funds. Information for the internal service fund is also provided in the proprietary fund financial statement. The basic proprietary fund financial statements can be found on pages 25 - 28.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Water Agency's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 29 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 - 58.

The combining statements referred to earlier in connection with governmental funds and proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 59- 65.

Sonoma County Water Agency	
Management's Discussion and Analysis	
Year Ended June 30, 2002	

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by \$301,318,658 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (55%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Water Agency's Net Assets

	Governmental		Business-Type		Total
	2000/01	2001/02	2000/01	2001/02	
Current and other assets	\$ 85,504,969	\$ 94,633,372	\$ 61,936,139	\$ 46,673,817	\$ 141,309,189
Capital assets	152,830,470	154,380,211	119,574,394	141,177,330	295,557,541
Total assets	238,335,439	249,015,583	181,510,933	187,851,147	436,866,730
Current liabilities	841,943	913,939	8,652,016	5,725,065	9,493,959
Noncurrent liabilities	116,162,102	116,927,663	8,987,351	11,981,405	128,909,068
Total liabilities	117,004,045	117,841,602	17,639,367	17,706,470	135,548,072
Invested in capital assets, net of related debt	37,959,042	39,059,377	108,996,171	127,953,364	146,955,213
Restricted	59,712,943	65,399,402	425,128	1,122,315	60,138,071
Unrestricted	23,659,409	26,715,202	54,450,267	41,068,998	78,109,676
Total net assets	\$ 121,331,394	\$ 131,173,981	\$ 163,871,566	\$ 170,144,677	\$ 285,202,960
					\$ 301,318,658

A portion of the Water Agency's net assets, \$66,521,717 (22%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$67,784,200) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Water Agency is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$16,115,698 during the current fiscal year. This increase is a result of revenues exceeding expenses in both the governmental and business-type activities.

Sonoma County Water Agency	
Management's Discussion and Analysis	
Year Ended June 30, 2002	

Sonoma County Water Agency's Changes in Net Assets

	Governmental		Business-Type		Total
	2000/01	2001/02	2000/01	2001/02	
Revenues:					
Program Revenues:					
Charges for Services	\$ 555,224	\$ 682,274	\$ 23,648,692	\$ 27,199,690	\$ 24,203,916
Capital Grants and Contributions	502,228	651,020	1,891,249	390,387	2,393,477
General Revenues:					
Property Taxes	11,983,913	13,578,148	43,807	45,816	12,027,720
Investment Earnings	7,608,585	7,125,188	3,721,484	1,364,441	11,330,069
Miscellaneous	84,058	155,939	58,003	33,791	142,061
Total Revenues	20,734,008	22,192,569	29,363,235	29,038,125	50,097,243
					51,230,694
Expenses:					
General Government	1,384,344	2,706,040	-	-	1,384,344
Flood Control	6,899,546	3,413,482	-	-	6,898,546
Warm Springs Dam	289,634	25,889	-	-	289,634
Interest on long-term debt	3,645,707	3,704,571	-	-	3,649,707
Water Transmission	-	-	22,952,390	22,833,848	22,952,390
Sanitation	-	-	2,376,688	2,431,166	2,431,166
Total Expenses	12,222,231	9,849,982	25,329,078	25,265,014	37,551,309
					35,114,996
Increase in Net Assets Before Transfers	8,511,777	12,342,587	4,034,157	3,773,111	12,545,934
Transfers	(1,916,500)	(2,500,000)	1,244,585	2,500,000	(671,915)
Increase in Net Assets	6,595,277	9,842,587	5,278,742	6,273,111	11,874,019
Net Assets - beginning of year	114,736,117	121,331,394	158,592,824	163,871,566	273,528,941
Net Assets - end of year	\$ 121,331,394	\$ 131,173,981	\$ 163,871,566	\$ 170,144,677	\$ 285,202,960
					\$ 301,318,658

Governmental Activities

Governmental activities increased the Water Agency's net assets by \$9,842,587, thereby accounting for 61% of the total growth in the net assets of the Water Agency. Key elements of this increase are identified below.

- Property tax revenues of \$13,578,148, including \$2,939,893 received for the purpose of debt retirement and the satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam.
- Investment earnings totaling \$7,125,188 due primarily to a \$5,812,687 increase in the fair market value of STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the US Army Corps of Engineers for Warm Springs Dam.
- Revenues for 2001-02 increased by \$1,458,561 over the prior fiscal year while expenditures decreased by \$2,372,249 over the same period. This decrease is due primarily to lower capital project related expenditures within the flood control zones.

Year Ended June 30, 2002

Sonoma County Water Agency's Changes in Net Assets (continued)

Revenues by Source – Governmental Activities



Business-type activities

Business-type activities increased the Water Agency's net assets by \$6,273,111 thereby accounting for 39% of the total growth in the net assets of the Water Agency.

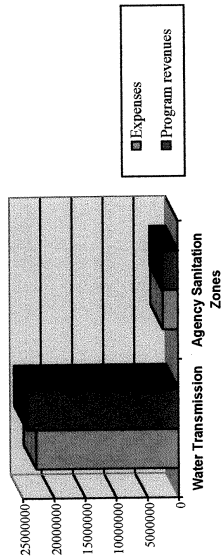
Key elements of this increase are identified below.

- Water sales revenues increased 15%, due primarily to an increase in the operations and maintenance component of the water rates.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwelling (ESDs) serviced by the Water Agency's five sanitation zones.
- Transfers from the Water Agency's General Fund totaling \$2,500,000 were received during 2001-02. These transfers were for the purpose of financing various capital projects related to Russian River projects and recycled water. Included in the \$2,500,000 was \$1,700,000 to the Airport/Larkfield/Wikup Sanitation Zone to provide funding towards the completion of the recycled water portion of Airport/Larkfield/Wikup's treatment plant upgrade.
- Investment Earnings for FY 2001-02 totaled \$1,368,441.

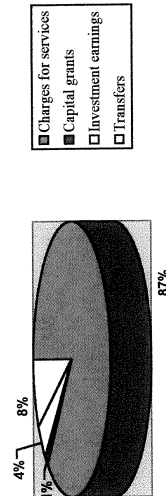
Year Ended June 30, 2002

Sonoma County Water Agency's Changes in Net Assets (continued)

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

As noted earlier, the Water Agency uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

Governmental funds

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$93,721,433, an increase of \$8,797,035 in comparison with the prior year. Approximately 26% of this total amount (\$24,602,405) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$3,011,762), 2) to pay debt service (\$65,399,402), 3) for contingencies (\$75,000), 4) inventories (\$19,864), and 5) for advances (\$613,000).

Financial Analysis of the Government's Funds (continued)

Governmental funds (continued)

The general fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved fund balance of the general fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was \$4,635,178, while total fund balance reached \$6,168,289.

The special revenue fund, consisting of six (6) flood control zones and the Warm Springs Dam has a fiscal year end fund balance of \$22,153,742, of which \$19,967,227 is unreserved with the remaining fund balance of \$2,186,515 being reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$65,399,402, all of which is reserved for the payment of debt service.

Proprietary funds

The Water Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water transmission services at the end of the year amounted to \$27,381,584, and those for the sanitation services amounted to \$6,029,001. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Water Agency's business-type activities.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected an increase in budgeted revenues of \$238,000 and an increase in appropriations of \$744,800.

The increased budgeted revenues was for anticipated grant funding from the State of California (\$50,000), and the Federal Government (\$188,000) towards a recycled water study. The receipt of this anticipated grant did not materialize during fiscal year 2001/02.

The primary components of the increase in budgeted expenses consists of; 1) \$238,000 for consultant services related to the recycled water study mentioned above, 2) \$143,800 related to planning and design work for Camp Meeker Sewer, and 3) \$250,000 for land acquisition of the Cooley Ranch. The acquisition of the Cooley Ranch is a funding agreement with the Sonoma County Agricultural Preservation and Open Space District towards the purchase of a conservation easement.

Capital Asset and Debt Administration

Capital assets

The Water Agency's investment in capital assets for its governmental and business type activities as June 30, 2002, amounts to \$295,557,541 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- Collection system improvements within Flood Control Zone 1A including:
Benson Lane Conduit - \$206,000
Cotati System B - \$352,000
Dennis/Elwin Lane Drainage Improvement- \$194,000
Fircrest Avenue storm drain - \$165,000
Valparaiso Avenue Storm Drain - \$210,000
- Design and construction of the "C" Street Conduit within Flood Control Zone 2A consisting of approximately 2,700 linear feet of 18 to 48 inch storm drain - \$1,168,414.
- Acquisition of the Cooley Ranch conservation easement to be utilized for watershed protection - \$250,000.

Business Type Activities:

- Capital expansion within the Storage Facilities fund including:
Kawana Springs Pipeline - \$5,245,266
- Capital expansion within the Common Facilities fund including:
Collectors 1 & 2 expansion - \$1,012,615
Wohler emergency generator replacement - \$2,142,751
Water Transmission system diversion alternatives - \$569,669
Cotati/Kasatania pipeline - \$207,766
Pump/Collector Capacity expansion - \$3,798,337
- The installation of the Healdsburg Dam fish ladder - \$1,787,373
- Capital expansion within the Airport/Larkfield/Wikiup Sanitation Zone including:
Storage and disposal phases 3 & 4 - \$3,234,274
Tertiary treatment upgrades - \$3,507,415

Sonoma County Water Agency

Management's Discussion and Analysis

Year Ended June 30, 2002

Capital Asset and Debt Administration (continued)

**Sonoma County Water Agency's Capital Assets
(net of depreciation)**

	Governmental		Business-Type		Total	
	2000/01	2001/02	2000/01	2001/02	2000/01	2001/02
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000	\$ 102,371,000
Land	1,286,938	1,537,528	5,199,100	5,241,190	6,486,038	6,778,718
Buildings and improvements	2,521,401	2,439,879	80,388,008	80,502,381	82,909,409	82,982,260
Machinery and equipment	459,692	410,526	2,279,027	2,456,241	2,738,719	2,866,767
Construction in Progress	7,176,266	9,397,628	31,708,659	32,937,518	38,884,925	62,335,146
Infrastructure	39,015,173	38,223,650	-	-	39,015,173	38,223,650
Total	\$ 152,830,470	\$ 154,380,211	\$ 119,574,794	\$ 141,177,330	\$ 272,405,264	\$ 295,557,541

Additional information on the Water Agency's capital assets can be found in Note F on pages 44 - 46 of this report.

Long-term debt

At the end of the current fiscal year, the Water Agency had a total of \$130,205,406 in outstanding debt consisting of bonds, Federal contract payable, capital leases payable and compensated absences. Of this amount \$723,000 comprises debt backed by the full faith and credit of the government, \$7,475,000 is a special obligation payable from the Water Agency's operating income, \$115,320,834 is a federal contract payable related to the water storage rights at Warm Springs Dam, \$845,385 is related to capital leases, \$1,606,829 is comprised of amounts payable to employees for unused sick and vacation leave upon termination, and \$4,234,358 represents funds advanced to the Water Agency from other governmental entities.

Sonoma County Water Agency's Outstanding Current and Long Term Debt

	June 30, 2001	June 30, 2002	Change
General Obligation Bonds	\$ 752,000	\$ 723,000	(3.86)%
Capital Leases	881,545	845,385	(4.10)%
Revenue Bonds	8,840,000	7,475,000	(15.44)%
Advances from other governments/Due to other funds	562,383	4,234,358	652.93 %
Federal Contract Payable	114,871,428	115,320,834	0.39 %
Compensated Absences	1,552,046	1,606,829	3.52 %
Total	\$ 127,459,402	\$ 130,205,406	2.15%

The Water Agency's total debt increased by \$2,746,004 (2.15%) during the current fiscal year. The increase in the Federal contract payable is the net effect of principal reduction due to the annual debt payments, and the addition of accrued interest on the unpaid principal. The terms of the agreement with the Federal government stipulate that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal.

Sonoma County Water Agency

Management's Discussion and Analysis

Year Ended June 30, 2002

Capital Asset and Debt Administration (continued)

Advances to/Due from other governments increased due to loan funds received from the State of California Water Resources for the construction of a collection well.

Compensated absences increased due to sick and vacation leave being accrued in excess of the actual usage.

The decrease in general obligation and revenue bonds, as well as capital leases, is related to principal reduction due to the required annual debt payments.

Additional information on the Water Agency's current and long-term debt can be found in Note L on pages 49 - 54 of this report.

Next Year's Budgets and Rates

During the current year, unreserved fund balance in the general fund increased to \$4,635,178. The Water Agency has appropriated \$629,163 of this amount for spending in the 2002-2003 fiscal year budget.

Both the water and sewer rates were increased for the 2002-2003 budget year. The water rates were increased by an average of 2.48%, while the sewer rates increased an average 4.85%.

Following are tables showing the rates charged for acre-foot of water used for municipal purposes by water contractors, along with sanitation services rates and equivalent single dwellings by sanitation district.

**Charges per Acre-Foot for Water Used for
Municipal Purposes by Water Contractors**

	Santa Rosa Aqueduct	Petaluma Aqueduct	Forestville Aqueduct	Sonoma Aqueduct
Operations & Maintenance	\$ 339.02	\$ 339.02	\$ 339.02	\$ 339.02
1971 Revenue Bonds - Series 1993A				
Pipeline	4.41	4.82	1.59	4.35
Common	5.16	5.16	5.16	5.16
Storage	18.90	18.90	18.90	18.90
Aqueduct Capital Charge	20.00	30.00	-	20.00
Total	\$ 387.49	\$ 397.90	\$ 364.67	\$ 387.43

Sonoma County Water Agency

Management's Discussion and Analysis

Year Ended June 30, 2002

Next Year's Budgets and Rates (continued)

Rate per Equivalent Single-Family Dwelling

	June 30, 2001	June 30, 2002	Change
Sanitation Zone			
Graton	\$ 692	\$ 733	5.92%
Sea Ranch	572	590	3.15%
Penngrove	541	565	4.44%
Geyserville	531	554	4.33%
Airport/Larkfield/Wikiup	328	349	6.40%

Number of Equivalent Single-Family Dwellings
by Sanitation Zone

	June 30, 2001	June 30, 2002	Change
Sanitation Zone			
Graton	631	637	0.95%
Sea Ranch	495	525	6.06%
Penngrove	471	494	4.88%
Geyserville	324	327	0.93%
Airport/Larkfield/Wikiup	3086	3147	1.98%

Request for Additional Information:

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

Sonoma County Water Agency

Statement of Net Assets			
June 30, 2002			
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and investments	\$ 29,830,914	\$ 123,716,946	\$ 153,547,860
Cash and investments with trustee	10,523,557	10,523,557	21,047,114
Receivables	3,581,855	3,698,331	7,280,186
Inventories	19,864	240,060	259,924
Total current assets	94,022,372	44,176,386	138,198,758
Restricted assets			
Cash - revenue bond funds	-	658,197	658,197
Cash and investments with trustee	-	1,619,512	1,619,512
Deposits with others	-	13,000	13,000
Total restricted assets	-	2,290,709	2,290,709
Noncurrent assets			
Deferred charges	-	206,722	206,722
Advance to other funds	613,000	-	613,000
Capital assets (net of accumulated depreciation):			
Intangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,537,328	5,241,190	6,778,518
Construction in progress	9,397,628	52,937,518	62,335,146
Infrastructure	38,223,650	38,223,650	76,447,300
Buildings and improvements	2,439,879	80,542,381	82,982,260
Equipment	410,526	2,456,241	2,866,767
Total capital assets	154,380,211	141,177,330	295,557,541
Total noncurrent assets	154,993,211	141,384,052	296,377,263
Total assets	249,015,583	187,851,147	436,866,730

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency

Statement of Net Assets (continued)			
June 30, 2002			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	903,111	4,338,559	5,241,670
Due to other funds	-	7,929	7,929
Deferred revenue	10,828	-	10,828
Total current liabilities payable	913,939	4,346,488	5,260,427
Current liabilities payable from restricted assets			
Deposits from others	-	4,230	4,230
Interest payable	-	131,786	131,786
General obligation bonds payable	-	29,000	29,000
Capital lease payable	-	38,549	38,549
Revenue bonds payable	-	1,175,012	1,175,012
Total current liabilities payable from restricted assets	-	1,378,577	1,378,577
Noncurrent liabilities			
Compensated absences	1,606,829	-	1,606,829
General obligation bonds payable	-	694,000	694,000
Capital leases payable	-	806,836	806,836
Revenue bonds payable	-	6,254,140	6,254,140
Long-term contracts payable	115,320,834	-	115,320,834
Advance from other governments	-	4,226,429	4,226,429
Total noncurrent liabilities	116,927,663	11,981,405	128,909,068
Total liabilities	117,841,602	17,706,470	135,548,072
Net assets			
Invested in capital assets, net of related debt	39,059,377	127,953,364	167,012,741
Restricted for debt service	65,399,402	1,122,315	66,521,717
Unrestricted	26,715,202	41,068,998	67,784,200
Total net assets	\$ 131,173,981	\$ 170,144,677	\$ 301,318,658

The accompanying Notes to the Financial Statements are an integral part of this Statement

Basic Financial Statements
Fund Financial Statements

Sonoma County Water Agency

Statement of Activities

For the Year Ended June 30, 2002

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental activities:							
General government	\$ 2,706,040	\$ 590,155	\$ -	\$ 501,004	\$ (1,614,881)	\$ -	\$ (1,614,881)
Flood control	3,413,482	92,119	-	103,815	(3,217,548)	-	(3,217,548)
Warm Springs Dam	25,889	-	-	46,201	20,312	-	20,312
Interest on long-term debt	3,704,571	-	-	-	(3,704,571)	-	(3,704,571)
Total governmental activities	9,849,982	682,274	-	651,020	(8,516,688)	-	(8,516,688)
Business-type activities:							
Water transmission	22,833,848	25,044,620	-	-	-	2,210,772	2,210,772
Sanitation	2,431,166	2,155,070	-	391,318	-	115,222	115,222
Total business-type activities	25,265,014	27,199,690	-	391,318	-	2,325,994	2,325,994
Total	\$ 35,114,996	\$ 27,881,964	\$ -	\$ 1,042,338	(8,516,688)	2,325,994	(6,190,694)
General revenues:							
Taxes:							
Property taxes, levied for general purposes	10,638,255	-	-	-	10,638,255	-	10,638,255
Property taxes, levied for debt service	2,939,893	44,885	-	-	2,984,778	-	2,984,778
Unrestricted investment earnings	7,125,188	1,368,441	-	-	8,493,629	-	8,493,629
Miscellaneous	155,939	33,791	-	-	189,730	-	189,730
Transfers	(2,500,000)	2,500,000	-	-	-	-	-
Total general revenues and transfers	18,359,275	3,947,117	-	-	22,306,392	-	22,306,392
Change in net assets	9,842,587	6,273,111	-	-	16,115,698	-	16,115,698
Net assets at beginning of year	121,331,394	163,871,566	-	-	285,202,960	-	285,202,960
Net assets at end of year	\$ 131,173,981	\$ 170,144,677	\$ -	\$ -	\$ 301,318,658	\$ -	\$ 301,318,658

The accompanying Notes to the Financial Statements are an integral part of this Statement
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**Sonoma County Water Agency
Balance Sheet
Governmental Funds**

June 30, 2002

	Special Revenue Funds				Total Governmental Funds
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	
Assets					
Cash and investments	\$ 5,835,255	\$19,587,466	\$ 3,063,909	\$65,399,402	\$ 93,886,032
Receivables	116,476	-	-	-	116,476
Inventories	19,864	-	-	-	19,864
Advance to other funds	613,000	-	-	-	613,000
Total assets	\$ 6,584,595	\$19,587,466	\$ 3,063,909	\$65,399,402	\$ 94,635,372
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 405,478	\$ 497,633	\$ -	\$ -	\$ 903,111
Deferred revenues	10,828	-	-	-	10,828
Total liabilities	416,306	497,633	-	-	913,939
Fund balances					
Reserved for					
Encumbrances	825,247	2,186,515	-	-	3,011,762
Inventories	19,864	-	-	-	19,864
Debt service	-	-	-	65,399,402	65,399,402
Advances	613,000	-	-	-	613,000
Unreserved					
Designated for contingencies	75,000	-	-	-	75,000
Undesignated	4,635,178	16,903,318	3,063,909	-	24,602,405
Total fund balances	6,168,289	19,089,833	3,063,909	65,399,402	93,721,433
Total liabilities and fund balance	\$ 6,584,595	\$19,587,466	\$ 3,063,909	\$65,399,402	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the funds.
Liabilities, including long-term contracts payable, are not due in the current period and, therefore, are not reported in the funds.

Net assets of governmental activities

154,380,211
(116,927,663)
\$ 131,173,981

The accompanying Notes to the Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

Year Ended June 30, 2002

	Special Revenue Funds				Total Governmental Funds
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	
Revenue					
Property taxes	\$ 4,068,465	\$ 6,569,790	\$ 2,939,893	\$ -	\$ 13,578,148
Investment earnings	311,452	712,143	159,969	5,941,624	7,125,188
Intergovernmental	301,004	103,815	46,201	-	651,020
Charges for services	390,155	92,119	-	-	682,274
Miscellaneous	155,863	76	-	-	155,939
Total revenue	5,626,939	7,477,943	3,146,063	5,941,624	22,192,569
Expenditures					
Current					
Salaries and benefits	16,838,180	-	-	-	16,838,180
Services and supplies	5,078,059	2,203,031	25,889	-	7,306,979
Costs applied	(19,439,543)	-	-	-	(19,439,543)
Capital outlay	318,811	2,615,942	-	-	2,934,753
Debt service	-	-	-	1,106,335	1,106,335
Principal	-	-	1,555,741	2,148,830	3,704,571
Interest and fiscal charges	-	-	-	-	-
Total expenditures	2,795,507	4,818,973	1,581,630	3,255,165	12,451,275
Excess of revenue and other sources over expenditures and other uses	2,831,432	2,658,970	1,564,433	2,686,459	9,741,294
Other financing sources (uses)					
Long-term contract proceeds	-	-	1,555,741	-	1,555,741
Transfers in	-	-	-	3,000,000	3,000,000
Transfers out	(2,500,000)	-	(3,000,000)	-	(5,500,000)
Total other financing sources (uses)	(2,500,000)	-	(1,444,259)	3,000,000	(944,259)
Net changes in fund balances	331,432	2,658,970	120,174	5,686,459	8,797,035
Fund balances at beginning of year, as restated	5,836,857	16,430,863	2,943,735	59,712,943	84,924,398
Fund balances at end of year	\$ 6,168,289	\$ 19,089,833	\$ 3,063,909	\$ 65,399,402	\$ 93,721,433

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

	Year Ended June 30, 2002
Amounts reported for governmental activities in the statement of activities (page 17) are different because:	
Net change in fund balances - total governmental funds (page 19)	\$ 8,797,035
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,934,753) exceeded depreciation (\$1,385,016) in the current period.	1,549,737
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.	1,106,335
Change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore, is not reported as expenditures in governmental funds.	(54,779)
Long-term contract proceeds which increases the long-term liabilities in the statement of net assets.	(1,555,741)
Changes in net assets of governmental activities (page 17)	\$ 9,842,587

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund - Budgetary Basis

	Year Ended June 30, 2002		
	Budgeted Amounts		Variance with Final Budget
	Original	Final	(Budgetary Basis) Positive (Negative)
Revenue			
Property taxes	\$ 3,707,000	\$ 3,707,000	\$ 4,068,465
Fines, forfeitures and penalties	1,200	1,200	(1,200)
Investment earnings	149,600	149,600	311,452
Intergovernmental	176,000	414,000	161,852
Charges for services	421,300	421,300	87,004
Miscellaneous	204,000	204,000	590,155
			155,863
			(48,137)
Total revenue	4,659,100	4,897,100	5,626,939
Expenditures			
Current			
Salaries and employee benefits	18,082,544	18,082,544	16,838,180
Services and supplies	5,357,280	6,052,080	5,376,034
Costs applied	(21,761,540)	(21,761,540)	(19,439,543)
Capital outlay	211,000	461,000	318,811
Contingencies	500,000	300,000	142,189
			300,000
Total expenditures	2,389,284	3,134,084	3,093,482
Excess of revenue over expenditures	2,269,816	1,763,016	2,533,457
Other financing uses			
Transfers out	(2,515,100)	(2,715,100)	(2,500,000)
			215,100
Total other financing uses	(2,515,100)	(2,715,100)	(2,500,000)
Net changes in fund balances	\$ (245,284)	\$ (952,084)	33,457
Fund balances at beginning of year			\$ 985,541
Adjustment from budgetary basis to GAAP			5,836,857
Timing difference: Encumbrances			297,975
Fund balances at end of year			\$ 6,168,289

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Flood Control - Budgetary Basis

	Year Ended June 30, 2002			
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note D	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 5,605,589	\$ 5,605,589	\$ 6,569,790	\$ 964,201
Fines, forfeitures and penalties				
Investment earnings	395,550	395,550	712,143	316,593
Intergovernmental	79,600	79,600	103,815	24,215
Charges for services	-	-	92,119	92,119
Miscellaneous	-	-	76	76
Total revenue	6,080,739	6,080,739	7,477,943	1,397,204
Expenditures				
Current				
Services and supplies	8,927,027	8,927,027	1,932,554	6,994,473
Capital outlay	-	-	645,912	(645,912)
Total expenditures	8,927,027	8,927,027	2,578,466	6,348,561
Excess (deficiency) of revenue over expenditures	(2,846,288)	(2,846,288)	4,899,477	7,745,765
Other financing uses				
Transfers out	(25,000)	(25,000)	-	25,000
Total other financing uses	(25,000)	(25,000)	-	25,000
Net changes in fund balances	\$ (2,871,288)	\$ (2,871,288)	4,899,477	\$ 7,770,765
Fund balances at beginning of year			16,430,863	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			(2,240,507)	
Fund balances at end of year			\$ 19,089,833	

The accompanying Notes to the Financial Statements are an integral part of this Statement 22

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Warm Springs Dam - Budgetary Basis

	Year Ended June 30, 2002			
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note D	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 2,024,465	\$ 2,024,465	\$ 2,939,893	\$ 915,428
Investment earnings	67,500	67,500	159,969	92,469
Intergovernmental	37,000	37,000	46,201	9,201
Total revenue	2,128,965	2,128,965	3,146,063	1,017,098
Expenditures				
Current				
Services and supplies	840,595	840,595	25,889	814,706
Debt service	-	-	1,555,741	(1,555,741)
Interest and fiscal charges	-	-	-	-
Total expenditures	840,595	840,595	1,581,630	(741,035)
Excess of revenue over expenditures	1,288,370	1,288,370	1,564,433	276,063
Other financing sources (uses)				
Long-term contract proceeds	-	-	1,555,741	1,555,741
Transfers out	(3,000,000)	(3,000,000)	(3,000,000)	-
Total other financing sources (uses)	(3,000,000)	(3,000,000)	(1,444,259)	1,555,741
Net changes in fund balances	\$ (1,711,630)	\$ (1,711,630)	120,174	\$ 1,831,804
Fund balances at beginning of year			2,943,735	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			-	
Fund balances at end of year			\$ 3,063,909	

The accompanying Notes to the Financial Statements are an integral part of this Statement 23

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Debt Service Fund - Budgetary Basis

	Year Ended June 30, 2002			
	Actual Amounts		Variance with Final Budget Positive (Negative)	
	Budgeted Amounts			
	Original	Final	See Note D	
Revenue				
Investment earnings	\$ 33,750	\$ 33,750	\$ 5,941,624	\$ 5,907,874
Total revenue	33,750	33,750	5,941,624	5,907,874
Expenditures				
Current				
Services and supplies	1,000,000	1,000,000	-	1,000,000
Debt service				
Principal	1,106,335	1,106,335	1,106,335	-
Interest and fiscal charges	2,148,830	2,148,830	2,148,830	-
Total expenditures	4,255,165	4,255,165	3,255,165	1,000,000
Excess (deficiency) of revenue over expenditures	(4,221,415)	(4,221,415)	2,686,459	6,907,874
Other financing sources				
Transfers in	3,000,000	1,431,005	3,000,000	1,568,995
Total other financing sources	3,000,000	1,431,005	3,000,000	1,568,995
Net changes in fund balances	\$ (1,221,415)	\$ (2,790,410)	5,686,459	\$ 8,476,869
Fund balances at beginning of year			59,712,943	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			-	
Fund balances at end of year			\$ 65,399,402	

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds

	June 30, 2002			
	Business-type Activities			
	Enterprise Funds		Total	
	Water Transmission	Sanitation		Internal Service Funds
Assets				
Current assets				
Cash and investments	\$ 16,149,125	\$ 6,046,337	\$ 22,195,462	\$ 7,635,452
Cash and investments with trustee	10,523,018	539	10,523,557	
Receivables	3,453,934	65,483	3,519,417	62,438
Inventories	240,060	-	240,060	-
Total current assets	30,366,137	6,112,359	36,478,496	7,697,890
Restricted assets				
Cash - revenue bond funds	528,944	129,253	658,197	-
Cash and investments with trustee	1,523,017	96,495	1,619,512	-
Deposits with others	13,000	-	13,000	-
Total restricted assets	2,064,961	225,748	2,290,709	-
Noncurrent assets				
Deferred charges	9,930	196,792	206,722	-
Capital assets (net of accumulated depreciation)				
Land	2,790,676	2,032,163	4,822,839	418,351
Construction in progress	36,380,874	16,462,969	52,843,843	93,675
Buildings and improvements	63,405,450	12,929,579	76,335,029	4,207,352
Equipment	246,898	48,227	295,125	2,161,116
Total capital assets	102,823,898	31,472,938	134,296,836	6,880,494
Total noncurrent assets	102,833,828	31,669,730	134,503,558	6,880,494
Total assets	135,264,926	38,007,837	173,272,763	14,578,384

The accompanying Notes to the Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds (continued)**

	June 30, 2002			
	Business-type Activities			
	Enterprise Funds		Internal Service Funds	
	Water Transmission	Sanitation	Total	
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	4,043,253	255,829	4,299,082	39,477
Due to other funds	-	7,929	7,929	-
Total current liabilities payable	4,043,253	263,758	4,307,011	39,477
Current liabilities payable from restricted assets				
Deposits from others	4,230	-	4,230	-
Interest payable	23,095	108,691	131,786	-
General obligation bonds payable	-	29,000	29,000	-
Capital lease payable	-	38,549	38,549	-
Revenue bonds payable	1,035,012	140,000	1,175,012	-
Total current liabilities payable from restricted assets	1,062,337	316,240	1,378,577	-
Noncurrent liabilities				
General obligation bonds payable	-	694,000	694,000	-
Capital leases payable	-	806,836	806,836	-
Revenue bonds payable	-	6,254,140	6,254,140	-
Advance from other governments	4,226,429	-	4,226,429	-
Total noncurrent liabilities	4,226,429	7,754,976	11,981,405	-
Total liabilities	9,332,019	8,334,974	17,666,993	39,477
Net assets				
Invested in capital assets, net of related debt	97,562,457	23,510,413	121,072,870	6,880,494
Restricted for debt service	988,866	133,449	1,122,315	-
Unrestricted	27,381,584	6,029,001	33,410,585	7,658,413
Total net assets	\$ 125,932,907	\$ 29,672,863	\$ 155,605,770	\$ 14,538,907

The accompanying Notes to the Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds**

	Year Ended June 30, 2002			
	Business-type Activities			
	Enterprise Funds		Internal Service Funds	
	Water Transmission	Sanitation	Total	
Operating revenue				
Water sales	\$ 23,842,947	\$ -	\$ 23,842,947	\$ -
Water services	30,214	-	30,214	-
Power sales	1,171,459	-	1,171,459	-
Fiat charges	-	2,038,003	2,038,003	-
Sanitation services	-	117,067	117,067	-
Equipment rental	-	-	-	1,347,595
Real estate rental	-	-	-	475,742
Miscellaneous	27,881	5,910	33,791	9,035
Total operating revenue	25,072,501	2,160,980	27,233,481	1,832,372
Operating expenses				
Services and supplies	20,529,750	1,727,709	22,257,459	1,331,847
Depreciation and amortization	2,373,002	641,031	3,014,033	713,032
Total operating expenses	22,902,752	2,368,740	25,271,492	2,044,879
Operating income (loss)	2,169,749	(207,760)	1,961,989	(212,507)
Nonoperating revenue (expenses)				
Taxes and assessments	-	44,885	44,885	-
Investment earnings	1,070,290	298,151	1,368,441	318,437
Interest expense	-	(74,762)	(74,762)	-
Intergovernmental revenue	-	931	931	-
Loss on sale of assets	-	-	-	(24,690)
Total nonoperating revenue	1,070,290	269,205	1,339,495	293,747
Net income before contributions and transfers	3,240,039	61,445	3,301,484	81,240
Capital contributions - connection fees	-	390,387	390,387	-
Transfers in	2,500,000	1,700,000	4,200,000	-
Transfers out	(1,700,000)	-	(1,700,000)	-
Change in net assets	4,040,039	2,151,832	6,191,871	81,240
Net assets at beginning of year	121,892,868	27,521,031		14,457,667
Net assets at end of year	\$ 125,932,907	\$ 29,672,863		\$ 14,538,907
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds				
			81,240	
Change in net assets of business-type activities				
			\$ 6,273,111	

The accompanying Notes to the Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Statement of Cash Flows
Proprietary Funds**

	Year Ended June 30, 2002			
	Business-type Activities			
	Enterprise Funds			Internal Service Funds
	Water Transmission	Sanitation	Total	
Cash flows from operating activities				
Receipts from customers	\$ 25,904,037	\$ 2,188,675	\$ 28,092,712	\$ 1,782,534
Receipts from interfund services provided	(10,242,109)	(1,113,539)	(11,355,648)	(1,027,047)
Payments to suppliers	(10,517,532)	(715,387)	(11,232,919)	(312,357)
Net cash provided by operating activities	5,144,396	359,749	5,504,145	443,130
Cash flows from noncapital financing activities				
Taxes and assessments	-	44,885	44,885	-
Intergovernmental revenue	-	931	931	-
Net cash provided by noncapital financing activities	-	45,816	45,816	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(14,173,232)	(7,927,722)	(22,100,954)	(959,471)
Principal paid on capital debt	(1,230,000)	(200,160)	(1,430,160)	-
Interest paid on capital debt	(167,016)	(431,982)	(598,998)	-
Proceeds from long-term debt	-	7,367	7,367	70,155
Proceeds from sale of capital assets	-	-	-	-
Capital contributions - connection fees	-	390,387	390,387	-
Transfers in	2,500,000	1,700,000	4,200,000	-
Transfers out	(1,700,000)	-	(1,700,000)	-
Net cash used in capital and related financing activities	(14,770,248)	(6,462,110)	(21,232,358)	(889,316)
Cash flows from investing activities				
Interest received	1,070,290	298,151	1,368,441	318,437
Net decrease in cash and cash equivalents	(8,555,562)	(5,758,394)	(14,313,956)	(127,749)
Balances at beginning of year	37,279,666	12,031,018	49,310,684	7,763,201
Balances at end of year	\$ 28,724,104	\$ 6,272,624	\$ 34,996,728	\$ 7,635,452
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 2,169,749	\$ (207,760)	\$ 1,961,989	\$ (212,507)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization expense	2,373,002	641,031	3,014,033	713,032
Change in assets and liabilities				
Receivables	831,437	27,693	859,130	(49,838)
Inventories	(21,569)	-	(21,569)	-
Accounts payable and other accrued expenses	(208,223)	(101,215)	(309,438)	(7,557)
Net cash provided by operating activities	\$ 5,144,396	\$ 359,749	\$ 5,504,145	\$ 443,130

The accompanying Notes to the Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Statement of Fiduciary Net Assets
Fiduciary Funds**

	June 30, 2002
	Agency Fund
Assets	
Current restricted assets	\$ 14,100
Cash and investments	\$ 14,100
Total current restricted assets	\$ 14,100
Liabilities	
Current liabilities payable from restricted assets	\$ 14,100
Deposits from others	-
Total current liabilities payable from restricted assets	\$ 14,100

The accompanying Notes to the Financial Statements are an integral part of this Statement

The notes to the basic purpose financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

Note A.	Defining the Financial Reporting Entity
Note B.	Summary of Significant Accounting Policies
Note C.	Restatement of Fund Equity and Net Assets
Note D.	Stewardship, Compliance and Accountability
Note E.	Cash and Investments
Note F.	Capital Assets
Note G.	Employees' Retirement Plan
Note H.	Post Employment Benefits
Note I.	Deferred Compensation Plan
Note J.	Interfund Accounts
Note K.	Leases and Agreements
Note L.	Long-Term Obligations
Note M.	Net Assets
Note N.	Commitments and Contingencies

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the "Water Agency") was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, and Cotati, as well as Valley of the Moon, Forestville, and North Marin Water Districts). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. These sewer sanitation zones provide sanitation services.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's reporting entity. Therefore, the Water Agency's basic financial statements have also been included as a component unit in the County's annual financial report for the fiscal year ended June 30, 2002.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "District"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Water Agency and the District, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Sonoma County Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, a sewer sanitation zone of the Sanitation Fund of the Water Agency.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies

Implementation of Governmental Accounting Standards Board Statements

The Water Agency has implemented the following pronouncements in the current year:

GASB Statement Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus*, respectively. These statements imposed new standards for financial reporting.

Note B.

Summary of Significant Accounting Policies (continued)

Implementation of Governmental Accounting Standards Board Statements (continued)

GASB Statement No. 38

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

GASB Interpretation No. 6

In March 2000, the GASB issued Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The Water Agency has implemented GASB Statements Nos. 34, 37 and 38 and Interpretation No. 6 for the current year-ended June 30, 2002. These statements are presented according to those requirements as discussed in Note C, Restatement of Fund Equity and Net Assets.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) displays information on the Sonoma County Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

The statement of net assets presents the financial condition of the governmental activities of the Water Agency at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Note B.

Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows takes place. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within 360 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements, therefore, include reconciliations with brief explanations to better identify their relationship between the government-wide statements and the statements for governmental funds.

For its business-type activities and enterprise funds, the Water Agency uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures. Under this basis of accounting, the Water Agency's proprietary fund types apply (a) all GASB pronouncements and (b) only FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Note B. Summary of Significant Accounting Policies (continued)
Measurement focus, basis of accounting, and financial statement presentation (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Transmission Fund, the Sanitation Fund and of the Water Agency's internal service funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of services and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

The Water Agency's financials are presented utilizing the following major funds:

Governmental fund types: These are the funds through which most governmental functions typically are financed. The major funds included in this category are as follows:

General Fund: This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the agency are included in this fund. The fund is charged with all costs of operating the agency for which a separate fund has not been established.

Special Revenue Funds: These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by state, charter or ordinance to finance specific government functions.

Flood Control: This fund is established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures related to flood control. Six flood control zones account for the maintenance of existing flood control structures and the construction of new projects in the following areas: Zone 1A - Laguna Mark West, Zone 2A - Petaluma Basin, Zone 3A - Valley of the Moon, Zone 5A - Lower Russian River, Zone 7A - North Coast, Zone 8A - South Coast.

Warm Springs Dam: This fund is established for the purpose of accumulating resources for the payment of interest and principal on the long-term federal contract payable to the U.S. Army Corps of Engineers for Waters Storage Rights at Warm Springs Dam.

Note B. Summary of Significant Accounting Policies (continued)
Measurement focus, basis of accounting, and financial statement presentation (continued)

Proprietary fund types: These funds account for operations that are organized to be self-supporting through user charges. The major funds included in this category are as follows:

Water Transmission: This fund accounts for the transportation of water and generation of electrical power for services to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon, Forestville, and North Marin Water Districts).

Sanitation: This fund accounts for the sanitation services and for the engineering, administration and operational services of five zones: Graton, Sea Ranch, Penningsville, Geyserville and Airport-Larkfield-Wikiup.

Additionally, the Water Agency reports the following fund types:

Internal Service Funds: These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. The Water Agency maintains separate internal service funds for equipment and facilities.

Agency Funds: These funds are used to account for assets held by the Water Agency on behalf of others as their agent. These funds are custodial in nature and do not involve measurement of results of operations. Funds held are surety deposits pertaining to river access for gravel mining.

Non-Current Governmental Asset/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Note B. Summary of Significant Accounting Policies (continued)

Cash and Investments

The Water Agency's operating cash is pooled with the Sonoma County Treasurer, except for restricted funds held by outside custodians or funds held by a trustee. The County Treasurer also acts as a disbursing agent for the Water Agency. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter.

The Water Agency applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Water Agency has stated certain investments at fair value.

Receivables

The Water Agency's accounts receivable are reported at their gross value and consist primarily of water sales to local water districts and cities.

Inventories

Inventories for governmental and proprietary funds are valued at average cost. Inventories in the General and Water Transmission Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the General Fund are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Restricted Assets - Enterprise Funds

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission and Sanitation funds that are restricted for debt service pursuant to various debt covenants. Restricted assets also include amounts for customer deposits.

Capital Assets

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Such assets are stated at cost or, if historical cost is not available, at engineering estimates. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets acquired are capitalized in the respective fund to which it applies. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred is netted against interest earned on the invested proceeds over the same period only when proceeds of tax exempt debt is externally restricted to the acquisition or construction of specified assets.

Note B. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of the assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years.

Bond and Certificates of Participation Discounts and Issuance Costs

Bond and certificates of participation discounts and issuance costs related to debt of proprietary fund types are deferred and amortized over the term of issuance. These discounts and issuance costs are netted against the related debt.

Compensated Absences

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

Vacation and sick leave expected to be paid in the ensuing year is accrued in the governmental fund types when an event such as termination or retirement is expected to occur, and the remainder is recorded as a long-term obligation. The accrued liability for vacation and sick leave relating to the proprietary funds is recorded in those funds in the period earned.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note B. Summary of Significant Accounting Policies (continued)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Costs applied consist of expenses incurred by the General Fund that have been allocated to the Water Agency's Special Revenue Funds and the Enterprise Fund. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

These amounts are eliminated in the governmental activities columns of the statement of net assets.

Cash Flows

Statement of cash flows are presented for proprietary fund types. For this purpose, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note C. Restatements of Fund Equity and Net Assets

The Water Agency's beginning fund balances have been restated to reflect the cumulative effect of GASB Statement No. 34. The impact of GASB Statement No. 34 on the Water Agency's accounting and financial reporting practices was to report all long-term assets, including capital assets, and liabilities in the statement of net assets in order to more appropriately reflect the nature of the activity. Accordingly, the beginning net assets of the General, Flood Control and Debt Service Funds have been restated.

The beginning fund equity of the General Fund has been restated to reflect the cumulative effect of the implementation of GASB Interpretation No. 6. The impact of this Interpretation was to increase the general fund and to reduce the current portion of the long-term liabilities not considered due and payable.

The impact of the restatements on the fund balance and net assets as previously reported is presented below:

	General Fund
<i>Fund Balance</i>	
Fund balance at June 30, 2001, as previously reported governmental fund type:	\$ 5,575,485
GASB Interpretation No. 6 adjustment:	
Reduction in current portion of long-term liabilities not considered due and payable	261,372
Fund balance at June 30, 2001 as restated governmental fund type	\$ 5,836,857
<i>Net Assets</i>	
Fund balances at June 30, 2001, as previously reported or restated governmental fund types:	
General	\$ 5,836,857
Special Revenue	19,374,598
Debt Service	59,712,943
Total fund balances at June 30, 2001, as previously reported	84,924,398
GASB Statement No. 34 adjustments:	
Addition of:	
Net capital assets	152,830,470
Long-term liabilities	(116,423,474)
Net assets at July 1, 2001	\$ 121,331,394

Governmental Activities

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note D. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between the major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the county Administrator and/or Board of Directors. Revisions that change total appropriations must be approved by the Board of Directors. All appropriations lapse at year-end.

Budgetary data, as revised, is presented in the accompanying financial statements for the General, Special Revenue and Debt Service Funds, since the operations of these funds are budgeted annually. Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

The results of "actual" operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

	Special Revenue Funds				Debt Service Funds	Total
	General Fund	Flood Control	Warm Springs Dam			
Excess of revenue and other sources over expenditures and other uses- budgetary basis	\$ 33,457	\$ 4,899,477	\$ 120,174	\$ 5,686,459	\$ 10,739,567	
Expenditure charges against prior year encumbrances	(320,607)	(2,596,463)	-	-	(2,917,070)	
Current year encumbrances	618,582	355,956	-	-	974,538	
Excess of revenue and other sources over expenditures and other uses- GAAP basis	\$ 331,432	\$ 2,658,970	\$ 120,174	\$ 5,686,459	\$ 8,797,035	

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Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note E. Cash and Investments

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Balance Sheet

A reconciliation of cash and investments shown on the accompanying statement of net assets is as follows:

Cash and investments	\$ 123,716,946
Cash and investments with trustee	10,523,557
Restricted cash for revenue bonds	658,197
Restricted cash and investments with trustee	1,619,512
	<u>\$ 136,518,212</u>

This balance consists of \$750 in cash on hand and \$136,517,462 in investments.

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Year Ended June 30, 2002

Note E. Cash and Investments (continued)

Investments

The Water Agency's investments at June 30, 2002 are categorized to give an indication of the level of custodial credit risk assumed by the Water Agency. Category 1 includes investments that are insured or registered, or for which the securities are held by the Water Agency or its agent in the Water Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Water Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Water Agency's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized. Investments held during the year did not vary from those held at year end in type or risk.

At June 30, 2002, investments included the following:

	Category			Carrying Amount
	1	2	3	
U.S. Treasury securities held by County Treasurer	\$ 61,516,584	\$ -	\$ -	\$ 61,516,584
Cash and investments held by trustee	-	-	-	12,143,069
Investment in County Treasurer's pooled cash	-	-	-	62,857,809
	\$ 61,516,584	\$ -	\$ -	\$ 136,517,462

U.S. Treasury Securities

Included in the investments balance are zero-coupon U.S. Government securities which are to be used specifically to fund the repayment of the Water Agency's \$115,320,834 contract payable (see Note L). The securities have a yield of approximately 9.4%, with yield described as the percentage increase in fair value from the prior fiscal year-end. These securities mature in various years ranging from 2002 to 2022.

Investment in County Treasurer's Pooled Cash

As of June 30, 2002, the weighted average maturity of the Treasury Pool was less than two years. Fifty-two percent of the securities in the Treasury Pool have maturities of zero to one year, thirty-nine percent have maturities of one to three years, nine percent have maturities of three to five years, and less than one percent have maturities in excess of five years.

Year Ended June 30, 2002

Note E. Cash and Investments (continued)

Investment in County Treasurer's Pooled Cash (continued)

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The net increase in the fair value of the Water Agency's investments during fiscal year 2001-02 was \$5,699,878. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end amounted to \$46,347,602. Realized gain on investments that matured during fiscal year 2001-2002 amounted to \$487,080.

Net increase (decrease) in fair value of investments during the fiscal year 2001-02 by fund, and included in revenue - investment earnings, were as follows:

General Fund	\$ (688)
Special Revenue Funds - Flood Control and Warm Springs Dam	7,986
Debt Services Fund	5,817,407
Enterprise Funds - Water Transmission and Sanitation	(119,921)
Internal Service Funds	(4,906)
	\$ 5,699,878

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note F.

Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance July 1, 2001	Increase	Decrease	Ending Balance June 30, 2002
<i>Governmental activities</i>				
Capital assets,				
not being depreciated:				
Intangible assets - water storage rights	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000
Land	1,286,938	250,590	-	1,537,528
Construction in progress	7,176,266	2,221,362	-	9,397,628
Total capital assets, not being depreciated	110,834,204	2,471,952	-	113,306,156
Capital assets, being depreciated:				
Infrastructure	48,324,783	418,929	-	48,743,712
Buildings and improvements	3,308,457	-	-	3,308,457
Equipment	910,604	43,876	-	954,480
Total capital assets being depreciated	52,543,844	462,805	-	53,006,649
Less accumulated depreciation for:				
Infrastructure	(9,309,610)	(1,210,452)	-	(10,520,062)
Buildings and improvements	(787,056)	(81,522)	-	(868,578)
Equipment	(450,912)	(93,042)	-	(543,954)
Total accumulated depreciation	(10,547,578)	(1,385,016)	-	(11,932,594)
Total capital assets, being depreciated, net	41,996,266	(922,211)	-	41,074,055
Governmental activities capital assets, net	\$ 152,830,470	\$ 1,549,741	\$ -	\$ 154,380,211

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note F.

Capital Assets (continued)

Warm Springs Dam Project

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been capitalized as an inexhaustible intangible asset.

In March 1992, the cost of the project to the Water Agency was established at \$102,371,000. The estimated cost of the Water Agency's portion of the project is 30.2% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long term contract payable within the governmental activities (Note L). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

The project became operational for water supply on November 1, 1994. The Water Agency does not own any part of the tangible dam facilities. The payments under the contract only entitle the Water Agency to permanent water storage rights.

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type activities</i>				
Capital assets, not being depreciated:				
Land	\$ 5,199,100	\$ 42,090	\$ -	\$ 5,241,190
Construction in progress	31,708,659	24,543,024	(3,314,165)	52,937,518
Total capital assets, not being depreciated	36,907,759	24,585,114	(3,314,165)	58,178,708
Capital assets, being depreciated:				
Buildings and improvements	120,348,467	3,314,163	-	123,662,630
Equipment	5,934,380	803,623	(331,809)	6,406,194
Total capital assets, being depreciated	126,282,847	4,117,786	(331,809)	130,068,824
Less accumulated depreciation for:				
Buildings and improvements	(39,960,459)	(3,159,790)	-	(43,120,249)
Equipment	(3,655,353)	(531,563)	236,963	(3,949,953)
Total accumulated depreciation	(43,615,812)	(3,691,353)	236,963	(47,070,202)
Total capital assets, being depreciated, net	82,667,035	426,433	(94,846)	82,998,622
Business-type activities capital assets, net	\$ 119,574,794	\$ 25,011,547	\$ (3,409,011)	\$ 141,177,330

Sonoma County Water Agency	
Notes to the Basic Financial Statements	
Year Ended June 30, 2002	

Note F.	
Capital Assets (continued)	
The total amount of interest capitalized into capital assets of business-type activities during the year amounted to \$508,924.	
Depreciation expense was charged to functions within the governmental and business-type activities as follows:	
<i>Governmental activities</i>	
General government	\$ 96,103
Spring Lake Park	78,461
Flood Control Zones, including depreciation of infrastructure assets	1,210,452
Total depreciation expense - governmental activities	\$ 1,385,016
<i>Business-type activities</i>	
Water	\$ 2,345,842
Sanitation	1,345,511
Total depreciation expense - business-type activities	\$ 3,691,353

Note G.	
Employees' Retirement Plan	
<i>Plan Description</i>	
The Water Agency contributes to Sonoma County's single-employer public employee retirement plan (the "Plan") that is administered by the Sonoma County Employees' Retirement Association (the "Retirement Association"). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.	
The financial statements for the County of Sonoma (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2001, is on file at the County Auditors' Office.	
<i>Funding Status</i>	

Plan members were required to contribute 4.88% - 9.42%, depending upon their age at their date of entry, of their annual covered salary at June 30, 2002. The Water Agency is required to contribute at an actuarially determined rate which was 12.57% of annual covered payroll at June 30, 2002. The Water Agency's contributions to the Plan during the years ended June 30, 2000, 2001, and 2002 were \$1,144,455, \$1,297,363, and \$1,526,474, respectively, equal to the required contribution each year.

Sonoma County Water Agency	
Notes to the Basic Financial Statements	
Year Ended June 30, 2002	

Note G.	
Employees' Retirement Plan (continued)	
<i>Funding Status (continued)</i>	
The Water Agency's total payroll for covered employees for the plan year ended December 31, 2001 was \$11,953,270, which represents approximately 5.25% of the Retirement Association's payroll for covered employees.	
Note H.	
Post Employment Benefits	
In addition to the pension benefits described in Note G, the Water Agency provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The Water Agency pays approximately 86% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The Water Agency reimburses a fixed amount of \$54.00 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The cost of post-retirement health care benefits are recognized as an expenditure as the Water Agency reimburses the County for premiums paid. The financial statement for the County of Sonoma (the primary government) contains the financial information for the post-employment benefits, which is not presented here because the Water Agency portion cannot be separated from the whole.	

Note I.	
Deferred Compensation Plan	
The Water Agency participates in the County of Sonoma deferred compensation plan (the "Plan") which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.	
In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore are not recorded as assets of the County. Each employee directs the investment of the assets in his or her account.	

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note J.

Interfund Accounts

Interfund Receivables/Payables

At June 30, 2002, interfund balances are as follows:

Government activities

Advances to/(from) other funds	Payable Fund	Amount
Receivable Fund		
County of Sonoma	Sonoma County Water Agency - General Fund	\$ (555,400)
Sonoma County Water Agency - General Fund	Forestville Sanitation District	555,400
Sonoma County Water Agency - General Fund	Occidental Sanitation District	250,000
Sonoma County Water Agency - General Fund	Forestville Sanitation District	363,000
Total		\$ 613,000

Business-type activities

(Due to)/from other funds

Receivable Fund	Payable Fund	Amount
Occidental Sanitation District	Sonoma County Water Agency - Sanitation - ALW	\$ (7,929)
Total		\$ (7,929)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "(due to)/from other funds" (i.e., the current portion of interfund loans) or "advances to/(from) other funds" (i.e., the non-current portion of interfund loans).

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note J.

Interfund Accounts (continued)

Transfers

A summary of transfer activity is as follows:

Transfer from	Transfer to	Amount	Purpose
General Fund	Water Transmission Fund	\$ 2,500,000	Provide funding to cover portion of Russian River projects (\$1,000,000) and recycled water projects (\$1,500,000).
Water Transmission Fund	Sanitation Fund	1,700,000	Provide funding from the recycled water portion of Water Transmission to cover portion of construction projects within Sanitation.
Warm Springs Dam Fund	Debt Service Fund	3,000,000	Transfer funds for scheduled principal and interest payments.
Total		\$ 7,200,000	

Note K.

Leases and Agreements

The Water Agency entered into a lease agreement on December 1, 1995 with the Sonoma County Water and Wastewater Financing Authority. The Sonoma County Water and Wastewater Financing Authority ("the Authority") is a joint powers authority created to provide financial assistance to the Water Agency by constructing and financing the Forestville and Graton Regional Wastewater Facilities Improvement Project, and by leasing these improvements to the Water Agency. The Authority is administered by the Board, whose members are the Board of Supervisors of the County, acting in its ex-officio capacity as the Board of Directors of the Water Agency.

The financing terms of this lease agreement have been disclosed in Note L as a capital lease payable.

Operating Lease

The Water Agency has a lease agreement for office facilities through February 2003. Operating costs and property taxes on the leased premises are included in the rental payments. Rental expense for 2002, amounted to \$344,003. Future minimum lease payments are as follows:

Year ending June 30, 2003	\$ 223,010
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Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L.**Long-Term Obligations**

Debt at June 30, 2002, consists of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 723,000
Capital lease payable	-	845,385
Water revenue bonds payable	-	1,040,000
Water and Wastewater revenue bonds payable	-	6,435,000
Advance from other governments	-	4,226,429
Long-term contracts payable	115,320,834	-
Compensated absences	1,606,829	-
	\$ 116,927,663	\$ 13,269,814

Business-type activities

General Obligation Bonds

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2002
Sanitation Zones				
1976 Graton	2016	5%	\$ 350,000	\$ 197,000
1977 Penngrove	2017	5%	300,000	189,000
1980 Geyserville	2020	5%	500,000	337,000
Total outstanding				723,000
Less current maturities				(29,000)
Long-term obligation				\$ 694,000

Sanitation General Obligation Bonds are repaid from tax revenues.

Capital Lease Payable - Revenue Bonds, Series 1995

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2002
Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995	2016	6.5%	\$ 1,031,364	\$ 845,385
Less current maturities				(38,549)
Long-term obligation				\$ 806,836

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L.**Long-Term Obligations (continued)***Business-type activities (continued)*

Capital Lease Payable - Revenue Bonds, Series 1995 (continued)

The Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995 are to be paid from the sewer revenues of the Graton Sanitation Zone, with interest payments made semi-annually.

Water Revenue Bonds Payable

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2002
1971 Revenue Bonds, Series 1993A	2003	2.5 - 5.375%	\$ 10,060,000	\$ 1,040,000
Less unamortized discount				(4,988)
Current portion of long-term payable, net of discount				\$ 1,035,012

The terms covering the 1971 Series 1993A Water Revenue Bonds provide that the revenue be pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, the use of revenue is limited to the priorities set forth in Article V of the Bond Ordinance No. 1, adopted December 28, 1970 and as amended. While these bonds are outstanding, the Water Agency may not create any liens upon, or sell, or otherwise dispose of the Water System or any property essential to the proper operation of the Water System or to the maintenance of the revenue.

For reporting purposes, unamortized bond issuance costs related to the 1971 Series 1993A Water Revenue Bonds in the amount of \$4,988 has been netted against the remaining current portion of outstanding debt at June 30, 2002.

Water and Wastewater Revenue Bonds Payable

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2002
California Statewide Communities Development Authority (CSCDA) 2000B Revenue Bonds	2026	4.0 - 5.65%	\$ 6,570,000	\$ 6,435,000
Less current portion				(140,000)
Less unamortized discount				6,295,000
Long-term payable, net of discount				\$ 6,254,140

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)

Business-type activities (continued)

Water and Wastewater Revenue Bonds Payable (continued)

The terms covering the CSCDA 2000B Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the revenues and such other money for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

Advances from Other Governments

The Water Agency is in process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources is loaning approximately \$15,000,000 to assist in the financing of this project. As of June 30, 2002, the Water Agency had received loan funds in the amount of \$4,226,429. Repayment of this loan will commence upon completion of the project.

Governmental activities

Long-Term Contracts Payable	Maturity Dates	Interest Rates	Authorized and Issued	Outstanding June 30, 2002
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 115,320,834

The terms of the agreement with the Department of the Army Corps of Engineers stipulates that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal. As a result of adding the accrued interest, the long-term contracts payable was increased by \$1,555,741 for 2002. This addition does not affect the operating funds of the Water Agency. As of June 30, 2002, total unpaid accrued interest that has been applied to principal per the terms of the agreement amounted to \$16,100,658.

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments will include principal and interest at a rate of 3.225%. The payments of principal and interest are currently funded by property tax revenues of the Water Agency. The amount of the payments began at \$930,562 and will increase to \$6,285,571 during the life of the contract.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)

Compensated Absences

At June 30, 2002, vested vacation and an accrual for vested sick leave for Agency employees amounted to \$1,606,829. There were no compensated absences expected to be liquidated with current available resources. The balance of this obligation is recorded as a noncurrent liability. Compensated absences are generally liquidated by the General Fund.

Changes in Long-Term Obligations

A summary of changes in long-term obligations is as follows:

	July 1, 2001	Increases	Decreases	June 30, 2002
<i>Business-type activities</i>				
General Obligation Bonds \$	752,000	\$ -	\$ 29,000	\$ 723,000
Capital Lease Payable -				
Revenue Bonds,				
Series 1995	881,545	-	36,160	845,385
Water Revenue Bonds				
Series 1993A	2,270,000	-	1,230,000	1,040,000
Water and Wastewater				
Revenue Bonds Series				
2000B	6,570,000	-	135,000	6,435,000
Advance from Other				
Governments	-	4,226,429	-	4,226,429
Total business-type activities	10,473,545	4,226,429	1,430,160	13,269,814

Governmental activities

Long-term contracts payable	114,871,428	1,555,741	1,106,335	115,320,834
Compensated absences	1,552,046	1,413,607	1,358,824	1,606,829
Total governmental activities	116,423,474	2,969,348	2,465,159	116,927,663
Total outstanding	\$ 126,897,019	\$ 7,195,777	\$ 3,895,319	\$ 130,197,477
<i>Annual Requirements</i>				

The annual principal and interest requirements on the long-term debt outstanding at June 30, 2002 (excluding compensated absences), are as follows at June 30 of each year listed:

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)

General Obligation Bonds

Year ending June 30,	Principal	Interest	Total
2003	\$ 29,000	\$ 35,725	\$ 64,725
2004	32,000	34,225	66,225
2005	32,000	32,625	64,625
2006	34,000	31,000	65,000
2007	36,000	28,850	64,850
2008 - 2012	206,000	117,375	323,375
2013 - 2017	260,000	59,800	319,800
2018 - 2021	94,000	8,900	102,900
	\$ 723,000	\$ 348,500	\$ 1,071,500

Capital Lease Payable

Year ending June 30,	Principal	Interest	Total
2003	\$ 38,549	\$ 54,334	\$ 92,883
2004	41,095	51,787	92,882
2005	43,810	49,073	92,883
2006	46,704	46,179	92,883
2007	49,789	43,094	92,883
2008 - 2012	302,845	161,569	464,414
2013 - 2016	322,593	48,938	371,531
	\$ 845,385	\$ 454,974	\$ 1,300,359

Water Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2003	\$ 1,040,000	\$ 38,733	\$ 1,078,733

Water & Wastewater Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2003	\$ 140,000	\$ 332,895	\$ 472,895
2004	145,000	327,016	472,016
2005	150,000	320,858	470,858
2006	160,000	314,308	474,308
2007	165,000	307,360	472,360
2008 - 2012	945,000	1,418,283	2,363,283
2013 - 2017	1,205,000	1,166,090	2,371,090
2018 - 2022	1,525,000	796,791	2,321,791
2023 - 2027	2,000,000	298,039	2,298,039
	\$ 6,435,000	\$ 5,281,640	\$ 11,716,640

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)

Long-Term Contracts Payable

Year ending June 30,	Principal	Interest	Total
2003	\$ 1,142,014	\$ 2,113,151	\$ 3,255,165
2004	1,178,844	2,076,321	3,255,165
2005	1,216,862	2,038,303	3,255,165
2006	1,256,106	1,999,059	3,255,165
2007	2,503,671	3,781,900	6,285,571
2008 - 2012	13,782,863	17,644,994	31,427,857
2013 - 2017	16,153,398	15,274,459	31,427,857
2018 - 2022	18,931,646	12,496,211	31,427,857
2023 - 2027	22,187,727	9,240,130	31,427,857
2028 - 2032	26,003,828	5,424,029	31,427,857
2033 - 2034	17,705,088	1,151,628	18,856,716
Total debt	122,062,047	73,240,185	195,302,232
Future accrued interest to be applied to principal	(6,741,213)	6,741,213	-
	\$115,320,834	\$ 79,981,398	\$ 195,302,232

Note M.

Net Assets

Net assets consists of three components representing reserved and unreserved amounts: 1) invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets. Investment in capital assets, net of related debt represents the Agency's equity interest in its capital assets, while restricted net assets are those subject to restrictions beyond the Agency's control, such as those externally imposed by creditors or law. Any remaining balance of net assets is reported as unrestricted net assets.

Portions of unrestricted net assets, which are presented in the fund financial statements, may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

Designated Fund Balance
General Fund
Contingencies

\$ 75,000

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note N. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2002. The projects include expansion and/or improvements of several water storage and wastewater treatment facilities. At June 30, 2002, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Common facilities	\$ 21,794,185	\$ 1,160,241
Russian River Projects	5,537,162	54,204
Water storage facilities	8,884,422	1,872,236
Wastewater treatment facilities	16,462,971	35,646
Total	\$ 52,678,740	\$ 3,122,327

The balances spent-to-date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for water storage and wastewater treatment facilities are being financed by revenue bonds, a Federal contract payable and a construction loan provided by State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.

Risk Management

The Water Agency is covered by the County of Sonoma's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$10,000,000. Additional coverage with limits of \$5,000,000 excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$5,000,000 and a \$25,000 deductible.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note N. Commitments and Contingencies (continued)

Risk Management (continued)

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the fiscal year 2001-02, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$87,313. Settlements have not exceeded coverages for each of the past three fiscal years.

Economic Dependence

Four major customers purchased water from the Water Agency during the year ended June 30, 2002. The sales to, and accounts receivable from, those customers are as follows:

Sales		% of total
Santa Rosa	\$ 8,623,565	36.2
Petaluma	3,917,433	16.4
Marin Municipal	3,666,443	15.4
North Marin County	3,369,827	14.1
	\$ 19,577,268	82.1

Accounts Receivable at June 30, 2002

	% of total
Santa Rosa	\$ 894,425 25.9
Petaluma	429,202 12.4
Marin Municipal	750,182 21.7
North Marin County	574,236 16.6
	\$ 2,648,045 76.6

Pending Litigation and Claims

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the Federal Clean Water Act, environmental clean-up costs, property damage and land use decisions. With regard to the current claims and litigation, the amount of ultimate liability, if any, to the Water Agency is not determinable at this time. Management believes that the ultimate resolution of these claims and litigation will not have any materially adverse effect upon the financial condition of the Water Agency.

Notes to the Basic Financial Statements	
	Year Ended June 30, 2002

Note N. Commitments and Contingencies (continued)

Other Regulatory Matters

Proceedings before the Federal Energy Regulatory Commission ("FERC") could result in reductions in the amount of water diverted from the Eel River into the Russian River, thus reducing one of the Water Agency's sources of supply. Legal counsel, representing the Water Agency at these proceedings, as well as management cannot estimate the likelihood of reduced flows or the effect such reduction would have on the Water Agency's water supplies and water-sale revenues.

Supplementary Information

Sonoma County Water Agency

Combining Balance Sheet - Special Revenue Funds

June 30, 2002

	Flood Control Fund							Warm Springs Dam Fund	Total
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund		
Assets									
Cash and investments	\$ 11,461,627	\$ 5,064,667	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,587,466	\$ 3,063,909	\$ 22,651,375
Total assets	\$ 11,461,627	\$ 5,064,667	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,587,466	\$ 3,063,909	\$ 22,651,375
Liabilities and fund balances									
Liabilities									
Accounts payable	\$ 489,493	\$ 8,140	\$ -	\$ -	\$ -	\$ -	\$ 497,633	\$ -	\$ 497,633
Deferred revenues	-	-	-	-	-	-	-	-	-
Total liabilities	489,493	8,140	-	-	-	-	497,633	-	497,633
Fund balances									
Reserved for encumbrances	2,186,515	-	-	-	-	-	2,186,515	-	2,186,515
Unreserved									
Undesignated	8,785,619	5,056,527	1,187,443	1,026,942	63,212	783,575	16,903,318	3,063,909	19,967,227
Total fund balances	10,972,134	5,056,527	1,187,443	1,026,942	63,212	783,575	19,089,833	3,063,909	22,153,742
Total liabilities and fund balances	\$ 11,461,627	\$ 5,064,667	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,587,466	\$ 3,063,909	\$ 22,651,375

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Sonoma County Water Agency

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Special Revenue Funds

June 30, 2002

	Flood Control Fund							Warm Springs Dam Fund	Total
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund		
Revenue									
Property taxes	\$ 4,708,651	\$ 1,225,436	\$ 455,175	\$ 101,441	\$ -	\$ 79,087	\$ 6,569,790	\$ 2,939,893	\$ 9,509,683
Investment earnings	393,906	205,513	38,546	41,069	2,617	30,492	712,143	159,969	872,112
Intergovernmental	76,015	16,706	8,139	1,677	-	1,278	103,815	46,201	150,016
Charges for services	92,119	-	-	-	-	-	92,119	-	92,119
Miscellaneous	76	-	-	-	-	-	76	-	76
Total revenue	5,270,767	1,447,655	501,860	144,187	2,617	110,857	7,477,943	3,146,063	10,624,006
Expenditures									
Current									
Salaries and benefits	-	-	-	-	-	-	-	-	-
Services and supplies	1,882,038	239,410	40,559	39,789	-	1,235	2,203,031	25,889	2,228,920
Costs applied	-	-	-	-	-	-	-	-	-
Capital outlay	1,326,158	1,288,330	1,454	-	-	-	2,615,942	-	2,615,942
Debt service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	1,555,741	1,555,741
Interest and fiscal charges	-	-	-	-	-	-	-	-	-
Total expenditures	3,208,196	1,527,740	42,013	39,789	-	1,235	4,818,973	1,581,630	6,400,603
Excess of revenue and other sources over expenditures and other uses	2,062,571	(80,085)	459,847	104,398	2,617	109,622	2,658,970	1,564,433	4,223,403
Other financing sources (uses)									
Long-term contract proceeds	-	-	-	-	-	-	-	1,555,741	1,555,741
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Total other financing sources (uses)	-	-	-	-	-	-	-	(1,444,259)	(1,444,259)
Net changes in fund balances	2,062,571	(80,085)	459,847	104,398	2,617	109,622	2,658,970	120,174	2,779,144
Fund balances at beginning of year	8,909,563	5,136,612	727,596	922,544	60,595	673,953	16,430,863	2,943,735	19,374,598
Fund balances at end of year	\$ 10,972,134	\$ 5,056,527	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,089,833	\$ 3,063,909	\$ 22,153,742

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**Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds**

June 30, 2002

	Sanitation Fund						Water Transmission Fund	Total
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund		
Assets								
Current assets								
Cash and investments	\$ 875,910	\$ 1,275,183	\$ 945,452	\$ 681,471	\$ 2,268,321	\$ 6,046,337	\$ 16,149,125	\$ 22,195,462
Cash and investment with trustee	-	-	-	-	539	539	10,523,018	10,523,557
Receivables	22,609	3,140	9,670	10,804	19,260	65,483	3,453,934	3,519,417
Inventories	-	-	-	-	-	-	240,060	240,060
Total current assets	898,519	1,278,323	955,122	692,275	2,288,120	6,112,359	30,366,137	36,478,496
Restricted assets								
Cash - revenue bond funds	31,864	-	23,987	73,402	-	129,253	528,944	658,197
Cash and investment with trustee	96,495	-	-	-	-	96,495	1,523,017	1,619,512
Deposits with others	-	-	-	-	-	-	13,000	13,000
Total restricted assets	128,359	-	23,987	73,402	-	225,748	2,064,961	2,290,709
Noncurrent assets								
Deferred charges	20,143	-	-	-	176,649	196,792	9,930	206,722
Capital assets (net of accumulated depreciation):								
Land	417,205	-	-	106,213	1,508,745	2,032,163	2,790,676	4,822,839
Construction in progress	96,376	259,521	591	86,002	16,020,479	16,462,969	36,380,874	52,843,843
Buildings and improvements	2,246,684	400,268	933,349	1,140,082	8,209,196	12,929,579	63,405,450	76,335,029
Equipment	-	10,860	-	-	37,367	48,227	246,898	295,125
Total capital assets	2,760,265	670,649	933,940	1,332,297	25,775,787	31,472,938	102,823,898	134,296,836
Total noncurrent assets	2,780,408	670,649	933,940	1,332,297	25,952,436	31,669,730	102,833,828	134,503,558
Total assets	3,807,286	1,948,972	1,913,049	2,097,974	28,240,556	38,007,837	135,264,926	173,272,763

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**Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds (continued)**

June 30, 2002

	Sanitation Fund						Water Transmission Fund	Total
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund		
Liabilities								
Current liabilities								
Accounts payable and accrued expenses	\$ 6,071	\$ 17,384	\$ 61,048	\$ 2,474	\$ 168,852	\$ 255,829	\$ 4,043,253	\$ 4,299,082
Due to other funds	-	-	-	-	7,929	7,929	-	7,929
Total current liabilities payable	6,071	17,384	61,048	2,474	176,781	263,758	4,043,253	4,307,011
Current liabilities payable from restricted assets								
Deposits from others	-	-	-	-	-	-	4,230	4,230
Interest payable	21,600	-	3,150	-	83,941	108,691	23,095	131,786
General obligation bonds payable	9,000	-	8,000	12,000	-	29,000	-	29,000
Capital lease payable	38,549	-	-	-	-	38,549	-	38,549
Revenue bonds payable	-	-	-	-	140,000	140,000	1,035,012	1,175,012
Total current liabilities payable from restricted assets	69,149	-	11,150	12,000	223,941	316,240	1,062,337	1,378,577
Noncurrent liabilities								
General obligation bonds payable	188,000	-	181,000	325,000	-	694,000	-	694,000
Capital leases payable	806,836	-	-	-	-	806,836	-	806,836
Revenue bonds payable	-	-	-	-	6,254,140	6,254,140	-	6,254,140
Advance from other governments	-	-	-	-	-	-	4,226,429	4,226,429
Total noncurrent liabilities	994,836	-	181,000	325,000	6,254,140	7,754,976	4,226,429	11,981,405
Total liabilities	1,070,056	17,384	253,198	339,474	6,654,862	8,334,974	9,332,019	17,666,993
Net assets								
Invested in capital assets, net of related debt	1,717,880	670,649	744,940	995,297	19,381,647	23,510,413	97,562,457	121,072,870
Restricted for debt service	59,210	-	12,857	61,402	-	133,449	988,866	1,122,315
Unrestricted	960,140	1,260,939	902,074	701,801	2,204,047	6,029,001	27,381,584	33,410,585
Total net assets	\$ 2,737,230	\$ 1,931,588	\$ 1,659,851	\$ 1,758,500	\$ 21,585,694	\$ 29,672,863	\$ 125,932,907	\$ 155,605,770

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Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds

June 30, 2002

	Sanitation Fund						Total Sanitation Fund	Water Transmission Fund	Total
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup				
Operating revenue									
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,842,947	\$ 23,842,947
Water services	-	-	-	-	-	-	-	30,214	30,214
Power sales	-	-	-	-	-	-	-	1,171,459	1,171,459
Flat charges	433,631	279,136	247,745	165,546	911,945	2,038,003	-	-	2,038,003
Sanitation services	6,304	4,481	5,940	2,366	97,976	117,067	-	-	117,067
Equipment rental	-	-	-	-	-	-	-	-	-
Real estate rental	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	5,910	5,910	-	27,881	33,791
Total operating revenue	439,935	283,617	253,685	167,912	1,015,831	2,160,980	25,072,501	27,233,481	
Operating expenses									
Services and supplies	287,399	256,926	234,553	133,029	815,802	1,727,709	20,529,750	-	22,257,459
Depreciation and amortization	113,774	36,404	39,157	67,335	384,361	641,031	2,373,002	-	3,014,033
Total operating expenses	401,173	293,330	273,710	200,364	1,200,163	2,368,740	22,902,752	25,271,492	
Operating income (loss)	38,762	(9,713)	(20,025)	(32,452)	(184,332)	(207,760)	2,169,749	1,961,989	
Nonoperating revenue (expenses)									
Taxes and assessments	12,911	-	13,362	18,612	-	44,885	-	-	44,885
Investment earnings	36,897	54,005	44,796	33,062	129,391	298,151	1,070,290	-	1,368,441
Interest expense	(60,566)	9,597	(9,517)	(14,276)	-	(74,762)	-	-	(74,762)
Intergovernmental revenue	351	-	229	351	-	931	-	-	931
Total nonoperating revenue	(10,407)	63,602	48,870	37,749	129,391	269,205	1,070,290	1,339,495	
Net income before contributions and transfers	28,355	53,889	28,845	5,297	(54,941)	61,445	3,240,039	3,301,484	
Capital contributions - connection fees	15,455	429	14,115	2,277	358,111	390,387	-	-	390,387
Transfers in	-	-	-	-	1,700,000	1,700,000	2,500,000	-	4,200,000
Transfers out	-	-	-	-	-	-	(1,700,000)	-	(1,700,000)
Change in net assets	43,810	54,318	42,960	7,574	2,003,170	2,151,832	4,040,039	6,191,871	
Net assets at beginning of year	2,693,420	1,877,270	1,616,891	1,750,926	19,582,524	27,521,031	121,892,868	149,413,899	
Net assets at end of year	\$ 2,737,230	\$ 1,931,588	\$ 1,659,851	\$ 1,758,500	\$ 21,585,694	\$ 29,672,863	\$ 125,932,907	\$ 155,605,770	

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Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds

June 30, 2002

	Sanitation Fund						Total Sanitation Fund	Water Transmission Fund	Total
	Sears Point	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup			
Cash flows from operating activities									
Receipts from customers	\$ -	\$ 432,280	\$ 282,997	\$ 259,333	\$ 166,479	\$ 1,047,586	\$ 2,188,675	\$ 25,904,037	\$ 28,092,712
Payments for interfund services used	-	(194,421)	(128,025)	(99,046)	(109,083)	(582,964)	(1,113,539)	(10,242,109)	(11,355,648)
Payments to suppliers	(20,679)	(91,948)	(124,687)	(251,281)	(22,926)	(203,866)	(715,387)	(10,517,532)	(11,232,919)
Net cash provided by operating activities	(20,679)	145,911	30,285	(90,994)	34,470	260,756	359,749	5,144,396	5,504,145
Cash flows from noncapital financing activities									
Taxes and assessments	-	12,911	-	13,362	18,612	-	44,885	-	44,885
Intergovernmental revenue	-	351	-	229	351	-	931	-	931
Net cash provided by noncapital financing activities	-	13,262	-	13,591	18,963	-	45,816	-	45,816
Cash flows from capital and related financing activities									
Purchase of capital assets	-	(16,822)	(147,735)	-	(77,955)	(7,685,210)	(7,927,722)	(14,173,232)	(22,100,954)
Principal paid on capital debt	-	(45,160)	-	(8,000)	(12,000)	(135,000)	(200,160)	(1,230,000)	(1,430,160)
Interest paid on capital debt	-	(66,797)	-	(9,650)	(17,150)	(338,385)	(431,982)	(167,016)	(598,998)
Proceeds from long-term debt	-	-	-	-	-	7,367	-	-	7,367
Capital contributions - connection fees	-	15,455	429	14,115	2,277	358,111	390,387	-	390,387
Transfers in	-	-	-	-	-	1,700,000	1,700,000	2,500,000	4,200,000
Transfers out	-	-	-	-	-	-	-	(1,700,000)	(1,700,000)
Net cash used in capital and related financing activities	-	(113,324)	(147,306)	(3,535)	(104,828)	(6,093,117)	(6,462,110)	(14,770,248)	(21,232,358)
Cash flows from investing activities									
Interest received	-	36,897	54,005	44,796	33,062	129,391	298,151	1,070,290	1,368,441
Net decrease in cash and cash equivalents	(20,679)	82,746	(63,016)	(36,142)	(18,333)	(5,702,970)	(5,758,394)	(8,555,562)	(14,313,956)
Balances at beginning of year	20,679	921,523	1,338,199	1,005,581	773,206	7,971,830	12,031,018	37,279,666	49,310,684
Balances at end of year	\$ -	\$ 1,004,269	\$ 1,275,183	\$ 969,439	\$ 754,873	\$ 2,268,860	\$ 6,272,624	\$ 28,724,104	\$ 34,996,728

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**Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds (continued)**

June 30, 2002										
	Sanitation Fund						Total Sanitation Fund	Water Transmission Fund	Total	
	Sears Point	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup				
Reconciliation of operating income (loss) to net cash provided by (used in)										
operating activities:										
Operating income (loss)	\$ -	\$ 38,762	\$ (9,713)	\$ (20,025)	\$ (32,452)	\$ (184,332)	\$ (207,760)	\$ 2,169,749	\$ 1,961,989	
Adjustments to reconcile operating income (loss) to net cash provided by operating activities										
Depreciation and amortization expense	-	113,774	36,404	39,157	67,335	384,361	641,031	2,373,002	3,014,033	
Change in assets and liabilities										
Receivables	-	(7,648)	(620)	5,638	(1,432)	31,755	27,693	831,437	859,130	
Inventories	-	-	-	-	-	-	-	(21,569)	(21,569)	
Accounts payable and other accrued expenses	(20,679)	1,023	4,214	(115,764)	1,019	28,972	(101,215)	(208,223)	(309,438)	
Net cash provided by operating activities	\$ (20,679)	\$ 145,911	\$ 30,285	\$ (90,994)	\$ 34,470	\$ 260,756	\$ 359,749	\$ 5,144,396	\$ 5,504,145	



Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Water Agency** as of and for the year ended June 30, 2002, and have issued our report thereon dated September 17, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Sonoma County Water Agency's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Sonoma County Water Agency's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sonoma County Water Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-1.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management, Board of Supervisors, County of Sonoma, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Pisenti & Brinker LLP

Santa Rosa, California
September 17, 2002

Schedule of Findings and Questioned Costs

Year Ended June 30, 2002

Section I. Summary of Auditors' Results

Basic Financial Statements

Type of auditors' report issued:

unqualified

Internal control over financial reporting:

Material weaknesses identified

yes

X

no

Reportable conditions identified not considered to be material weaknesses

X

yes

no

Noncompliance material to financial statements noted

yes

X

no

Section II. Financial Statement Findings

Condition deemed not to be material weaknesses

The following observation was made this year:

Accounts Payable

Item 02-01

Observation

During our audit, we noted two invoices amounting to \$710,038 that were recorded in an Enterprise Fund in the incorrect period, one of which was for a construction in progress billing. Under generally accepted accounting principles, accounts payable should be recorded in the period goods or services are received.

Recommendation

We recommend procedures be established to ensure the Water Agency is receiving construction in progress reports and recording the obligations in the proper accounting period. In addition, we recommend that all invoices be recorded in the accounting records in the proper accounting period when received and approved.

Water Agency's Response

Year-end processing of construction in progress payments and new Board items creates a challenge in terms of timing. During the past year, we created an additional control using a spreadsheet of pending items for year-end processing. Unfortunately, the timing of new contracts near year end creates a difficult problem of foreseeing those items that will be approved prior to year end and accountable within the closing year. We have just established another control sheet for items sent back to Engineering for additional processing near year end. This will provide one more control. We will take the additional step of coordinating with the Executive secretary responsible for scheduling Board items to monitor items scheduled for Board action near the end of the year. These controls in total will help us ensure all invoices are recorded in the accounting records in the proper accounting period.

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APPENDIX C AREA STATISTICAL INFORMATION

Sonoma County

General

Incorporated in 1850, Sonoma County is the largest and northernmost of the nine San Francisco Bay Area counties with a land area of 1,608 square miles. It extends east to Napa and Lake Counties, north to Mendocino County, south to San Pablo Bay and Marin County, and has a 62-mile Pacific shoreline along its western boundary.

There are nine incorporated cities in Sonoma County, including Santa Rosa, the Sonoma County seat, which is located approximately 52 miles north of San Francisco. The United States Department of Commerce has designated the entire Sonoma County the Santa Rosa Standard Metropolitan Statistical Area.

Sonoma County has a diversified economic base, with agriculture, manufacturing and government of prime importance. Sonoma County also benefits from its proximity to the San Francisco-Oakland metropolitan area, which provides additional employment opportunities to the residents of Sonoma County.

County Government

Sonoma County is governed by a five member Board of Supervisors elected by district for overlapping four year terms. The Board appoints a County Administrator who is responsible for day-to-day operations.

The County Assessor, Auditor-Controller, County Clerk, the District Attorney (who also serves as the Public Administrator and Public Guardian), County Recorder, Sheriff and Treasurer-Tax Collector are elected, at large, by the voters,

Geography and Climate

Geographically, Sonoma County is characterized by three distinct areas: mountainous regions, rolling hills and valley land. Elevations range from sea level to 4,262 feet.

The climate for Sonoma County is considered to be typical of a marine west coast climate with warm and dry summer months and mild winters. The highest precipitation occurs between November and April. The area receives an average of 32 inches of rainfall annually and has a mean annual temperature of approximately 57 degrees Fahrenheit.

Population

The following table contains the population of Sonoma County and the incorporated cities in Sonoma County for the past decade. Recent 2000 Census data reports Sonoma's population increased 18.1 percent over 1990 Census figures, a growth of 70,400 residents, bringing the total population to 458,600. The cities of Cloverdale, Santa Rosa and Petaluma recorded the highest percent growth: all three increased by more than 25 percent, with Cloverdale leading at 38 percent. The Town of Windsor, located near Santa Rosa, is the newest city to be incorporated in Sonoma County, with over 22,000 residents recorded in its first census count. Overall, Sonoma County is the sixteenth-highest populated county in the state.

**POPULATION OF SONOMA COUNTY
AND INCORPORATED CITIES
1990 and 2000**

Area	1990[*]	2000^{**}	1990-2000 Percentage Change
Sonoma County	388,222	458,614	18.1%
Cities:			
Cloverdale	4,914	6,831	38.7
Cotati	5,714	6,471	13.2
Healdsburg	9,469	10,722	13.2
Petaluma	43,184	54,548	26.3
Rohnert Park	36,326	42,236	16.3
Santa Rosa	113,313	147,595	30.3
Sebastopol	7,004	7,774	11.0
Sonoma	8,121	9,128	12.4
Windsor		22,744	

* Census of Population, April 1990

** California Department of Finance estimates. County and city figures are as of January 1, 2001.

Source: California Employment Development Department, January 1, 2001

Major Employers

The major employers in Sonoma County are shown in the following table:

**25 LARGEST PRIVATE SECTOR EMPLOYERS
COUNTY OF SONOMA**

	Employer	Nature of Enterprise	Full-time Employees Total Employees
1.	Agilent Technologies	Test and measurement products, systems and services	3,900 n/a
2.	Medtronic AVE	Medical device development and manufacturing	1,700 1,700
3.	St. Joseph Health System	Hospitals	1,403 2,496
4.	JDS Uniphase	Optical thin film coatings, components	990 1,100
5.	State Farm Insurance	Insurance and financial services	888 934
6.	Sutter Medical Center of Santa Rosa	Hospital	729 1,352
7.	Longs Drug Stores	Retail drug stores	705 1,140
8.	SBC Pacific Bell	Telecommunications	688 688
9.	Kaiser Permanente	Health care provider, hospital	660 1,850
10.	Washington Mutual	Financial	650 689
11.	Kendall-Jackson Wine Estates	Winery	650 650
12.	Hansel Dealer Group	Automobile sales and service	624 683
13.	Advanced Fibre Communications	Telecommunications Equipment	618 621
14.	Cisco Systems	Optical networking equipment	600 600
15.	The Press Democrat	Newspaper publishing	450 530
16.	Pacific Gas & Electric	Electric and gas utility	435 435
17.	Wal-Mart	Retail	420 600
18.	Exchange Bank	Bank	416 464
19.	Safeway	Grocery stores	400 750
20.	Legacy Marketing Group	Financial services, marketing	383 393
21.	Korbel	Wine industry	351 466
22.	Alcatel USA	Telecommunications equipment	350 350
23.	North Bay Construction	General engineering contractor	350 350
24.	Ghilotti Construction Company	General engineering contractor	320 365
25.	Albertson's	Supermarkets	300 622

Source: North Bay Business Journal, June 17, 2002

Industry Description

Sonoma County is a site for major industrial and merchandising firms. The largest industries in Sonoma County, in terms of the percentage of employment in each respective industry through March 2000, are as follows:

Services	28.1%
Retail Trade	18.5
Government	14.3
Manufacturing	16.2
Mining & Construction	7.2
Finance, Insurance and Real Estate	5.3
Wholesale Trade	3.6
Agriculture	3.6
Transportation & Public Utilities	3.6

Source: Labor Market Information Department (California Employment Development Department) July 2002

The following shows employment by industry group in Sonoma County from 1997 to 2001.

EMPLOYMENT BY INDUSTRY GROUP COUNTY OF SONOMA ANNUAL AVERAGE*

Type of Employment	1997	1998	1999	2000	2001
Agriculture	6,200	6,500	6,400	6,900	7,000
Non-Agricultural					
Mining	500	400	400	400	300
Construction	9,300	10,200	12,100	13,100	13,400
Manufacturing	26,100	28,100	29,600	31,800	32,300
Transportation and Public Utilities	6,100	6,400	6,200	6,300	6,400
Wholesale Trade	7,700	8,000	7,000	6,900	6,700
Retail Trade	33,600	34,600	35,200	35,800	36,700
Finance, Insurance and Real Estate	9,600	9,900	10,300	10,400	10,700
Services	47,400	49,700	51,800	53,800	55,200
Government	<u>25,200</u>	<u>25,600</u>	<u>26,600</u>	<u>27,600</u>	<u>28,000</u>
Non-Agricultural Total	165,400	173,100	179,300	186,100	189,700
Total Agricultural and Non-Agricultural	<u>171,600</u>	<u>179,600</u>	<u>185,700</u>	<u>193,000</u>	<u>196,800</u>

Source: Labor Market Information Department (California Employment Development Department) July 2002

The following table summarizes the labor force, employment and unemployment figures over the past five years for the Sonoma County labor market area, the State of California. and the nation as a whole.

COUNTY OF SONOMA
Civilian Labor Force
Employment and Unemployment Estimates
for the Sonoma County, State and Nation
Yearly Average
1996-2001

Unemployment Year and Area	Labor Force	Employment	Unemployment	Rate *
1996				
Sonoma County	230,000	219,000	10,100	4.4%
California	15,511,600	14,391,500	1,120,100	7.2
U.S.	133,943,000	126,708,000	7,236,000	5.4
1997				
Sonoma County	239,600	230,600	9,000	3.8
California	15,947,000	14,942,500	1,004,700	6.3
U.S.	136,297,000	129,558,000	6,739,000	4.9
1998				
Sonoma County	247,000	238,000	8,200	3.3
California	16,336,500	15,367,500	969,000	5.9
U.S.	137,673,000	131,463,000	6,210,000	4.5
1999				
Sonoma County	250,800	244,100	6,700	2.7
California	16,596,500	15,731,700	864,800	5.2
U.S.	139,368,000	133,488,000	5,880,000	4.2
2000				
Sonoma County	259,100	252,300	6,800	2.6
California	17,090,800	16,245,600	845,200	4.9
U.S.	140,863,000	135,208,000	5,655,000	4.0
2001				
Sonoma County	262,600	254,900	7,700	2.9
California	17,362,300	16,435,200	927,100	5.3
U.S.	141,815,000	135,073,000	6,742,000	4.8

Source: Labor Market Information Department, March 2001 Benchmark

* Unemployment Rate is based on unrounded data.

Commercial Activity

Commercial activity forms an important part of Sonoma County's economy.

The following table summarizes taxable retail sales in Sonoma County over the past three years.

SONOMA COUNTY
Trade outlets and Taxable Retail Sales
1999 through 2001
(in thousands)

	1999	2000	2001*
Taxable Sales (\$000)			
Apparel	\$134,470	\$153,888	\$ 40,201
General Merchandise	667,628	713,719	172,410
Specialty	515,592	602,868	144,301
Food	323,395	346,175	90,508
Eating & Drinking	410,478	450,519	126,479
Home Furnishings, Appliance	187,378	219,690	51,567
Building Materials	451,803	488,413	142,505
Automotive Group	1,189,171	1,042,538	356,975
All other Retail Stores group	225,813	255,661	64,539
Retail Stores Total	4,105,328	4,633,471	1,189,485
TOTAL ALL OUTLETS	\$6,017,754	\$6,823,544	\$1,730,867

* Third Quarter 2001 Taxable Sales

Source: California Board of Equalization February 1, 2002.

CITY OF PETALUMA
Trade outlets and Taxable Retail Sales
1999 through 2001
(in thousands)

	1999	2000	2001*
Taxable Sales (\$000)			
Apparel	\$26,784	\$28,894	\$ 6,908
General Merchandise	60,756	62,134	14,798
Food Stores	44,710	46,605	12,632
Eating & Drinking	58,139	63,407	17,135
Home Furnishings, Appliance	17,056	19,839	4,102
Building/Farm Materials	34,251	40,748	9,014
Auto dealers and supplies	235,636	277,598	71,903
Service Stations	48,199	58,773	14,878
Other Retail Stores	75,461	86,574	21,015
Retail Stores Total	600,992	684,572	172,385
All Other Outlets	232,496	295,198	64,786
TOTAL ALL OUTLETS	\$833,488	\$979,770	\$237,171

* Third Quarter 2001 Taxable Sales

Source: California Board of Equalization February 1, 2002.

CITY OF SANTA ROSA
Trade outlets and Taxable Retail Sales
1999 through 2001
(in thousands)

	1999	2000	2001*
Taxable Sales (\$000)			
Apparel	\$ 134,470	\$ 97,300	\$ 26,035
General Merchandise	667,628	469,301	110,356
Food Stores		121,690	30,691
Eating & Drinking	410,478	172,550	46,627
Home Furnishings, Appliance	187,378	140,623	31,709
Building/Farm Materials	451,803	196,992	51,318
Auto dealers and supplies		551,532	133,780
Service Stations	1,189,171	126,464	33,951
Other Retail Stores		413,734	95,874
Retail Stores Total	4,105,328	2,290,456	560,341
All Other Outlets		466,975	104,603
TOTAL ALL OUTLETS	\$6,017,754	\$2,757,431	\$664,944

* Third Quarter 2001 Taxable Sales (Fourth Quarter 2001 not yet available)

Source: California Board of Equalization February 1, 2002.

Construction Activity

The following is a five-year summary of the valuation of building permits issued in Sonoma County:

COUNTY OF SONOMA
Building Permit Valuations
(valuations in thousands)

	1997	1998	1999	2000	2001	2002*
New Residential						
Single Fam. Dwelling	\$263,336	\$333,066	\$409,934	\$470,784	\$307,681	\$157,084
Multi-Fam. Dwelling	21,001	59,329	40,112	31,183	69,047	27,413
Alter/Adds.	<u>38,665</u>	<u>39,427</u>	<u>54,615</u>	<u>57,961</u>	<u>71,002</u>	<u>41,795</u>
Total New Residential	\$323,002	\$431,822	\$504,658	\$559,928	\$447,730	\$226,292
Non-Residential						
Commercial Offices	\$17,386	\$35,525	\$23,406	\$21,700	--	--
Commercial Stores	22,201	32,927	30,908	27,761	--	--
Other Commercial	9,905	10,307	13,805	18,406	--	--
New Commercial	--	--	--	--	\$90,855	\$61,701
Industrial	42,732	37,743	48,739	29,460	22,228	3,921
Other construction	23,476	34,597	36,085	35,458	41,162	25,280
Non-residential alter	<u>58,085</u>	<u>73,919</u>	<u>73,286</u>	<u>75,934</u>	<u>57,848</u>	<u>36,955</u>
Total Non-Residential	\$178,788	\$225,018	\$226,233	\$208,809	\$212,093	\$127,857
TOTAL VALUATIONS	<u>\$501,790</u>	<u>\$656,840</u>	<u>\$730,891</u>	<u>\$768,741</u>	<u>\$659,823</u>	<u>\$354,149</u>

Source: California Construction Industry Research Board, 2001

* Up to July 2002

CITY OF PETALUMA
Building Permit Valuations

	1997	1998	1999	2000	2001	2002*
New Residential						
Single Fam. Dwelling	\$57,111,306	\$48,544,337	\$65,207,820	\$38,038,964	\$15,725,691	\$2,157,716
Multi-Fam. Dwelling	2,494,005	21,208,191	11,531,396	4,361,829	2,959,162	6,553,421
Alter/Adds.	<u>2,516,701</u>	<u>3,092,778</u>	<u>9,420,087</u>	<u>3,889,945</u>	<u>4,692,720</u>	<u>2,537,792</u>
Total New Residential	\$62,122,012	\$72,845,306	\$86,159,303	46,335,738	\$23,377,573	\$11,248,929
Non-Residential						
Commercial Offices	--	--	--	--	--	--
Commercial Stores	--	--	--	--	--	--
Other Commercial	--	--	--	--	--	--
New Commercial	\$6,628,402	\$40,914,062	\$8,888,518	\$24,385,091	\$ 11,384,661	\$1,094,225
Industrial	7,777,651	5,525,843	3,356,546	0	7,075,896	0
Other construction	1,856,756	1,104,460	5,896,640	2,727,346	2,751,458	934,634
Non-residential alter	<u>10,322,226</u>	<u>12,589,278</u>	<u>17,434,384</u>	<u>22,790,188</u>	<u>12,762,423</u>	<u>5,019,020</u>
Total Non-Residential	\$26,585,035	\$60,133,643	\$35,576,088	\$49,902,625	\$33,974,438	\$7,047,879
TOTAL VALUATIONS	<u>\$88,707,047</u>	<u>\$132,978,949</u>	<u>\$121,735,391</u>	<u>\$96,238,363</u>	<u>\$57,352,011</u>	<u>\$18,296,808</u>

Source: California Construction Industry Research Board, 2001

* Up to July 2002

CITY OF SANTA ROSA
Building Permit Valuations

	1997	1998	1999	2000	2001	2002*
New Residential						
Single Fam. Dwelling	\$91,081,975	\$128,297,947	\$134,931,898	\$225,859,929	\$139,918,143	\$ 51,182,252
Multi-Fam. Dwelling	1,068,208	32,766,239	11,201,951	13,025,564	40,637,897	16,195,025
Alter/Adds.	<u>10,540,124</u>	<u>9,772,214</u>	<u>11,399,467</u>	<u>14,460,816</u>	<u>17,656,201</u>	<u>12,060,378</u>
Total New Residential	\$102,690,307	\$170,836,400	\$157,533,316	\$253,346,309	\$198,212,241	\$79,437,655
Non-Residential						
Commercial Offices	--	--	--	--	--	--
Commercial stores	--	--	--	--	--	--
Other Commercial	--	--	--	--	--	--
New Commercial	\$15,789,923	\$16,535,208	\$21,356,150	\$24,170,237	\$ 29,295,400	\$ 9,462,089
Industrial	15,106,600	10,213,000	6,657,434	10,851,199	1,526,234	0
Other construction	2,716,332	11,802,589	11,250,725	5,429,926	10,083,443	6,863,078
Non-residential alter	<u>22,016,518</u>	<u>25,556,195</u>	<u>22,283,662</u>	<u>20,326,770</u>	<u>18,406,732</u>	<u>9,371,085</u>
Total Non-Residential	<u>\$55,629,373</u>	<u>\$64,106,792</u>	<u>\$61,547,971</u>	<u>\$60,778,132</u>	<u>\$59,111,809</u>	<u>\$25,696,252</u>
TOTAL VALUATIONS	<u>\$158,319,680</u>	<u>\$234,943,192</u>	<u>\$219,081,287</u>	<u>\$314,124,441</u>	<u>\$257,324,050</u>	<u>\$105,133,907</u>

Source: California Construction Industry Research Board, 2001

* Up to July 2002

Transportation

All modes of commercial transportation are available in Sonoma County. The Petaluma River is capable of handling water barge freight from the San Francisco Bay area to Petaluma. The Sonoma County Airport, located just outside the city of Santa Rosa, handles commercial and private air traffic. Seven private airfields serve Sonoma County as well. In addition, highways bisect Sonoma County: the major freeway is U.S. Highway 101 which runs from Marin and San Francisco Counties in the south to Mendocino County in the north. State Highway 12 is the major east-west thoroughfare from Bodega Bay on the western coastline to Sonoma on the east.

Education

Sonoma State University, Santa Rosa Junior College, Empire College, University of San Francisco, and other public and private schools offer a wide range of educational opportunities for all ages.

Recreation

Sonoma County has long been famous for its scenic and recreational resources. Today, Sonoma County has state parks and county parks as well as a premium wine industry to attract and entertain tourists as well as residents. A County regional park system was established in 1967 and now includes 15 parks including coastlines, mountains, redwood forests, lakes and historical locations. These resources have generated a significant tourism industry.

Water

Water is delivered through the Sonoma County Water Agency to the cities of Santa Rosa, Petaluma, Rohnert Park, Sonoma, and Cotati; North Marin Water District; Marin Municipal Water District; Valley of the Moon Water District; Forestville Water District and the Russian River area.

Marin County

General

Incorporated in 1850 and one of the nine Bay Area counties, Marin County is linked to San Francisco by the Golden Gate Bridge and to the East Bay by the Richmond-San Rafael Bridge. It is bordered on the north and northeast by Sonoma County and on the west by the Pacific Ocean. The 520 square miles of Marin offer a wide variety of topography, climate, and vegetation, from the tidal flats of the coastline to the slopes of Mt. Tamalpais rising 2,600 feet above sea level; from the dense stands of redwood and pine to the inland grasslands and exposed rocky areas, and the coastal fogs that temper the warm inland temperatures in summer.

County Government

Marin County is governed by a five member Board of Supervisors elected by district for overlapping four year terms. The Board appoints a County Administrator who is responsible for day-to-day operations.

The County Assessor, Auditor-Controller, County Clerk, the District Attorney (who also serves as the Public Administrator and Public Guardian), County Recorder, Sheriff and Treasurer-Tax Collector are elected, at large, by the voters.

Geography and Climate

Although Marin County is small, its landscape and microclimates are enormously varied. They range from the misty beaches and grasslands of West Marin to warm, sunny inland valleys, redwood forests, and the wooded slopes of Mt. Tamalpais. Each of the cities in Marin County has its own character, as well as its own weather. In general, though, Marin County has a Mediterranean climate with mild, rainy winters (low temperatures rarely dip below 40 degrees F) and warm, clear summers, with highs in the 70s and 80s.

Population

The following table contains the population of Marin County and the incorporated cities in Marin County for the past decade. Recent 2000 Census data reports Marin's population increased 7.5 percent over 1990 Census figures, a growth of 17,200 residents, bringing the total population to 247,300. Within Marin County, both the city of San Rafael and the town of Tiburon experienced over 15 percent growth. San Rafael's population grew from 48,400 residents in 1990 to 56,100 residents in 2000, and Tiburon added 1,100 residents to reach a population of 8,700.

**POPULATION OF MARIN COUNTY
AND INCORPORATED CITIES
1990 and 2000**

Area	1990*	2000**	1990-2000 Percentage Change
Marin County	230,096	246,289	7.5%
Cities:			
Belvedere	2,147	2,125	-1.0
Corte Madera	8,272	9,100	10.0
Fairfax	6,931	7,319	5.6
Larkspur	11,068	12,014	8.5
Mill Valley	13,029	13,600	4.3
Novato	47,585	47,630	0.1
Ross	2,136	2,329	9.7
San Anselmo	11,735	12,378	5.4
San Rafael	48,410	56,063	15.8
Sausalito	7,152	7,330	2.5
Tiburon	7,554	8,666	15.1

* Census of Population, April 1990

** California Department of Finance estimates. County and city figures are as of January 1, 2001.

Source: California Employment Development Department, January 1, 2001

Major Employers

The major employers in Marin County are shown in the following table:

**25 LARGEST PRIVATE SECTOR EMPLOYERS
COUNTY OF MARIN**

	Employer	Nature of Enterprise	Full-time Employees Total Employees
1.	Lucas Companies	Film production, entertainment/educational software, visual effects, sound design/editing	1,800
2.	Fireman's Fund Insurance Company	Property/casualty insurance	1,660
3.	Autodesk	Design software and digital content	892
4.	Marin General Hospital	Health care	850
5.	Kaiser Permanente	Acute care hospital and medical offices	730
6.	Fair, Isaac & Company	Analytics and decision technology	602
7.	GE Financial Assurance - Long-Term Care Division	Long-term care insurance	590
8.	Greenpoint Mortgage Funding	Mortgage lender	400
9.	Marin Independent Journal	Newspaper	260
10.	Birkenstock Footprint Sandals	U.S. distributor of Birkenstock comfort footwear	213
11.	W. Bradley Electric	Construction	204
12.	Labcon, North America	Manufacturing labware for biomedical research	200
13.	Restoration Hardware	Home furnishings retailer	200
14.	Brayton Purcell	Law Firm	180
15.	Ghilotti Brothers	Construction	175
16.	Novato Community Hospital	General acute care hospital, including emergency care, intensive/critical care	170
17.	Dominican University of California	Education	150
18.	Rafael Convalescent Hospital	Convalescent hospital	150
19.	Century Theatres	Motion picture exhibitor	135
20.	The Pasha Group	Transportation and logistics services	135
21.	Villa Marin Homeowners Association	Homeowners association	120
22.	Cagwin & Dorward	Landscape contractors	115
23.	Gardner's Guild	Commercial and residential landscape management and construction	115
24.	Portal Publications	Publishing	114
25.	Bank of Marin	Banking	110

Source: North Bay Business Journal, February 25, 2002

Industry Description

Marin County is dominated by services, retail and government sectors. The largest industries in Marin County, in terms of the percentage of employment in each respective industry through March 2000, are as follows:

Services	38.9%
Retail Trade	21.8
Government	13.3
Finance, Insurance and Real Estate	8.0
Mining & Construction	7.0
Manufacturing	3.9
Wholesale Trade	3.7
Transportation & Public Utilities	2.8
Agriculture	0.4

Source: Labor Market Information Department (California Employment Development Department) July 2002

The following shows employment by industry group in Marin County from 1997 to 2001.

EMPLOYMENT BY INDUSTRY GROUP COUNTY OF MARIN ANNUAL AVERAGE*

Type of Employment	1997	1998	1999	2000	2001
Agriculture	500	500	500	500	500
Non-Agricultural					
Construction and Mining	5,400	6,100	7,000	7,700	8,000
Manufacturing	5,100	5,000	4,800	4,400	3,900
Transportation and Public Utilities	3,300	3,500	3,200	3,100	3,200
Wholesale Trade	4,500	4,300	4,200	4,100	3,900
Retail Trade	23,100	23,700	24,300	24,600	24,900
Finance, Insurance and Real Estate	9,600	9,500	9,300	9,200	9,400
Services	38,900	39,900	42,800	43,300	44,200
Government	<u>14,000</u>	<u>14,200</u>	<u>14,700</u>	<u>14,800</u>	<u>15,100</u>
Non-Agricultural Total	103,800	106,300	110,300	111,300	112,600
Total Agricultural and Non-Agricultural	<u>104,300</u>	<u>106,700</u>	<u>110,800</u>	<u>111,700</u>	<u>113,100</u>

Source: Labor Market Information Department (California Employment Development Department) July 2002

The following table summarizes the labor force, employment and unemployment figures over the past five years for the Marin County labor market area, the State of California. and the nation as a whole.

COUNTY OF MARIN
Civilian Labor Force
Employment and Unemployment Estimates
for the Sonoma County, State and Nation
Yearly Average
1996-2001

Unemployment Year and Area	Labor Force	Employment	Unemployment	Rate *
1996				
Marin County	129,100	124,800	4,400	3.4%
California	15,511,600	14,391,500	1,120,100	7.2
U.S.	133,943,000	126,708,000	7,236,000	5.4
1997				
Marin County	131,900	128,100	3,800	2.8
California	15,947,000	14,942,500	1,004,700	6.3
U.S.	136,297,000	129,558,000	6,739,000	4.9
1998				
Marin County	133,600	130,500	3,100	2.3
California	16,336,500	15,367,500	969,000	5.9
U.S.	137,673,000	131,463,000	6,210,000	4.5
1999				
Marin County	135,200	132,600	2,600	1.9
California	16,596,500	15,731,700	864,800	5.2
U.S.	139,368,000	133,488,000	5,880,000	4.2
2000				
Marin County	139,500	137,100	2,300	1.7
California	17,090,800	16,245,600	845,200	4.9
U.S.	140,863,000	135,208,000	5,655,000	4.0
2001				
Marin County	138,100	134,600	3,500	2.5
California	17,362,300	16,435,200	927,100	5.3
U.S.	141,815,000	135,073,000	6,742,000	4.8

Source: Labor Market Information Department, March 2001 Benchmark

* Unemployment Rate is based on unrounded data.

Commercial Activity

Commercial activity forms an important part of Marin County's economy.

The following table summarizes taxable retail sales in Marin County over the past three years.

MARIN COUNTY
Trade outlets and Taxable Retail Sales
1999 through 2001
(in thousands)

	1999	2000	2001*
Taxable Sales (\$000)			
Apparel	\$119,609	\$137,350	\$ 31,532
General Merchandise	455,250	474,845	107,384
Specialty	483,250	518,297	109,321
Food	177,898	187,998	46,622
Eating & Drinking	337,494	365,028	96,015
Home Furnishings, Appliance	167,220	187,264	43,984
Building Materials	256,481	281,776	77,375
Automotive Group	606,534	740,827	179,462
All other Retail Stores group	62,319	64,904	16,536
Retail Stores Total	2,665,857	2,958,289	708,231
TOTAL ALL OUTLETS	\$3,670,921	\$4,056,025	\$965,925

* Third Quarter 2001 Taxable Sales (Fourth Quarter 2001 not yet available)

Source: California Board of Equalization February 1, 2002.

Construction Activity

The following is a five-year summary of the valuation of building permits issued in Marin County:

COUNTY OF MARIN
Building Permit Valuations
(valuations in thousands)

	1997	1998	1999	2000	2001	2002*
New Residential						
Single Fam. Dwelling	\$108,827	\$150,286	\$176,687	\$156,513	\$74,883	\$50,245
Multi-Fam. Dwelling	13,834	13,392	6,883	16,802	10,401	200
Alter/Add.	<u>61,268</u>	<u>74,323</u>	<u>113,851</u>	<u>121,514</u>	<u>118,565</u>	<u>72,822</u>
Total New Residential	\$183,929	\$238,001	\$297,421	\$294,829	\$203,849	\$123,267
Non-Residential						
New Commercial	\$20,500	\$31,068	\$13,555	\$57,791	\$38,734	\$6,203
Industrial	2,296	65	0	0	3,303	0
Other construction	9,286	10,207	32,452	22,700	12,141	8,208
Non-residential alter	<u>23,011</u>	<u>36,168</u>	<u>48,991</u>	<u>50,114</u>	<u>45,449</u>	<u>41,693</u>
Total Non-Residential	\$55,093	\$77,508	\$94,998	\$130,605	\$99,627	\$56,184
TOTAL VALUATIONS	<u>\$239,022</u>	<u>\$315,509</u>	<u>\$392,419</u>	<u>\$425,434</u>	<u>\$303,476</u>	<u>\$179,451</u>

Source: California

Construction

Industry

Research

Board,

2001

* Up to July 2002

Transportation

All modes of commercial transportation are available in Marin County. Northwestern Pacific Railroad provides limited rail transportation within Marin County with connections to major rail interchanges. The Gness Field Airport, located in Novato,

handles private air traffic. The major freeway is U.S. Highway 101 which runs from Marin County and San Francisco Counties in the south to Mendocino County in the north.

Education

Marin County children are educated in 19 school districts whose enrollments range from 12 students to 7,000 students. Fifteen of the school districts are elementary districts (K-8); 2 are unified districts (K-12); and 2 are high school districts (Grades 9-12) The Marin Community College has two campuses: Kentfield and Novato. There are several private schools, including Dominican University in San Rafael.

Recreation

The combination of mountains, sea, and climate in Marin County, with 141,400 acres (*Marin County Assessor-Recorders Office, July 1996*) of federal, state, and county parkland, county open space, and two water districts' lands devoted to recreation, has made Marin County a recreation spot for the entire Bay Area. Marin County has many state, county and city operated parks and recreational facilities including: China Camp State Park, Mt. Tamalpais State Park, Point Reyes National Seashore, and the Golden Gate National Recreation Area.

Water

Marin Municipal Water District ("MMWD") provides water to 185,000 people in a 147- square-mile area of Marin County, California, just across the Golden Gate Bridge from San Francisco. North Marin Water District ("NMWD") provides water to Novato, and Point Reyes in a 75-square mile area service area. Both MMWD and NMWD have contracted with the Sonoma Water County Agency since 1974.

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APPENDIX D
HISTORY OF SONOMA COUNTY WATER AGENCY,
THE RUSSIAN RIVER WATERSHED,
AND THE WATER TRANSMISSION SYSTEM

Overview

The Sonoma County Water Agency was created in 1949 by an act of the California Legislature. The Act gives the Agency the authority to produce and furnish surface and groundwater for beneficial uses, to control flood water, to generate electricity, and related authority. Under the Act, the Sonoma County Board of Supervisors serves as the Board of Directors of the Agency.

The Agency owns and operates a water Transmission System. The Agency uses the Transmission System to divert water from the Russian River and deliver it on a wholesale basis to nine public entities in Sonoma and Marin counties. These public entities in turn supply water on a retail basis to a population of approximately 600,000. The Transmission System consists of Ranney-type collector wells adjacent to the Russian River in the Wohler/Mirabel area northwest of Santa Rosa, aqueducts, booster pumps, water storage tanks, a pH adjustment system, conventional wells, and associated facilities. The Transmission System's construction and operating costs are paid for by the Agency's Transmission System customers, through the imposition of charges for water sold by the Agency to its Water Contractors.

Two federal projects impound the water supply diverted and delivered by the Agency through the Transmission System: the Coyote Valley Dam on the Russian River east of the city of Ukiah in Mendocino County (forming Lake Mendocino), and the Warm Springs Dam on Dry Creek (a tributary of the Russian River) northwest of the city of Healdsburg in Sonoma County (forming Lake Sonoma). These projects (jointly referred to as the "Russian River Project") are operated by the U.S. Army Corps of Engineers ("Corps") for water supply and flood control purposes. Because the Agency was the local sponsor for the dams and partially financed their construction, the Agency has the right to control releases from the water supply pools of both reservoirs. The Agency stores, diverts, and rediverts water under water rights permits issued by the SWRCB.

The Agency's contributions to the construction of Coyote Valley and Warm Springs dams were financed through property tax revenues. Sonoma County voters approved the construction of Coyote Valley Dam and the Agency's sale of revenue bonds to finance the construction in 1956. Sonoma County voters approved the construction of Warm Springs Dam and the Agency's contractual obligations to the United States to finance the construction in 1974 and once again in 1979.

In 1998, the Agency's Board of Directors approved the WSTSP. The WSTSP will expand the Agency's Transmission System to meet the growth projections set forth in the general plans of jurisdictions served by the Agency's customers, through the construction of additional Ranney collector wells, aqueducts, booster stations, and water storage facilities. In January 2001, the Agency and eight of its primary customers entered into the Eleventh Amended Agreement for Water Supply ("Eleventh Amended Agreement"). The Eleventh Amended Agreement authorizes the Agency to construct and finance WSTSP facilities. The facilities to be constructed with Bond proceeds are part of the WSTSP.

The Russian River Watershed

The Russian River originates in central Mendocino County, approximately 15 miles north of Ukiah. It drains an area of approximately 1,485 square miles, including much of Sonoma and Mendocino counties, and empties into the Pacific Ocean at Jenner in Sonoma County. The main channel of the Russian River is about 110 miles long and flows generally southward from its headwaters to Mirabel Park, where it turns generally westward as it crosses a part of the Coast Range. Principal tributaries of the Russian River are the East Fork of the Russian River, Big Sulphur Creek, Mark West Creek, Maacama Creek, and Dry Creek.

Three major reservoir projects provide water supply storage for the Russian River watershed: Lake Pillsbury on the Eel River, Lake Mendocino, and Lake Sonoma. The three reservoir projects are described below.

Lake Pillsbury and the Potter Valley Project

In 1908, Cape Horn Dam and the Van Arsdale Reservoir on the Eel River in Mendocino County were constructed, along with a diversion tunnel through the mountains from the Eel River to the East Fork of the Russian River. The 450-foot drop in elevation between the Eel River and the East Fork of the Russian River is used to generate electrical energy at the Potter Valley Power Plant, located approximately 25 miles northeast of the City of Ukiah.

By 1921, Van Arsdale Reservoir had substantially filled with silt, leading to the construction of Scott Dam upstream on the Eel River, forming Lake Pillsbury. Scott Dam is a concrete gravity dam that captures the drainage from an area of 298 square miles. Lake Pillsbury began storing water in December 1921. It has a gross storage capacity estimated in 1998 to be

76,824 acre-feet. Water is released from Lake Pillsbury to the Eel River, then diverted 12 miles downstream at Cape Horn Dam to the Potter Valley Power Plant through the diversion tunnel. The water then flows through Potter Valley in the East Fork of the Russian River to Lake Mendocino.

Diversions from the Eel River are used to generate power, irrigate agricultural land in Potter Valley, and augment summer flows in the Russian River. All of the facilities described above, including Scott Dam and Lake Pillsbury, Cape Horn Dam and the diversion tunnel, and the Potter Valley Power Plant, comprise the Potter Valley Project ("PVP"). The PVP was purchased by the Pacific Gas and Electric Company ("PG&E") in September 1929. Since 1972, power generation by the PVP has averaged about 55 gigawatt-hours per year.

The quantity of water that can be diverted to PG&E's Potter Valley Power Plant is affected by the flows required to maintain the fishery in the Eel River. The flow schedule is included in the Federal Energy Regulatory Commission ("FERC") license for the PVP. PG&E also has an agreement with the United States Forest Service to maintain high reservoir levels in Lake Pillsbury until Labor Day of each year to support recreational use. From 1922 to 1992, diversions to the Russian River watershed averaged 159,000 acre-feet per year.

Lake Mendocino

Lake Mendocino, located 3 miles northeast of the City of Ukiah, is formed by the Coyote Valley Dam, located on the East Fork of the Russian River. Coyote Valley Dam is a rolled earth embankment dam with a crest 160 feet above the original streambed.

Lake Mendocino, which began storing water in 1959, has a capacity of 118,900 acre-feet and captures a drainage area of about 105 square miles. A study performed by the Agency in 1985 indicated that the water supply pool capacity of Lake Mendocino, which was originally 72,000 acre-feet, has been reduced by sedimentation to about 69,000 acre-feet. The remaining capacity over 69,000 acre-feet is for flood control. The Agency and the Mendocino County Russian River Flood Control and Water Conservation Improvement District ("Mendocino District") share state water rights permits to store up to 122,500 AFY in the reservoir. However, because the Agency acted as the local sponsor for the dam, it has the right to control releases from the water supply pool in Lake Mendocino. When the water level rises above the top of the water supply pool and into the flood control pool, the Corps has control of releases, but allows the Agency to store an additional 20,000 acre feet of water in the spring after the flood threat is over. Lake Mendocino has recreational facilities which are heavily used.

Lake Sonoma

Lake Sonoma is impounded by Warm Springs Dam at the confluence of Warm Springs Creek and Dry Creek, about 14 miles northwest of Healdsburg. Warm Springs Dam is a rolled earth embankment dam with a crest elevation 319 feet above the original streambed. Lake Sonoma began storing water in 1982 and became fully operational for water supply in 1984.

Lake Sonoma has a gross capacity of 381,000 acre-feet and captures a drainage area of about 130 square miles. Under a contract with the federal government, the Agency has rights to a portion of the 212,000 acre-feet of water storage space in Lake Sonoma. The contract gives the Agency the right to control the rate of release of water from the water supply pool in Lake Sonoma. The Corps assumes control of releases when the water level rises above the top of the water supply pool and into the flood control pool. Lake Sonoma's recreational facilities are heavily used.

Russian River Project

Lake Sonoma and Lake Mendocino and their associated facilities, collectively referred to as the Russian River Project, are operated in accordance with criteria established by the State Water Resources Control Board's ("SWRCB") Decision 1610 ("Decision 1610") which established instream flow requirements for Dry Creek and the Russian River. The Agency makes no diversions from the Russian River between Lake Mendocino and the Russian River's confluence with Dry Creek, but does authorize diversions by the City of Healdsburg under its water rights permits.

History of Water Supply Development in the Russian River Watershed

Coyote Valley Dam

In 1937, Congress directed the Corps to investigate the flood control and water conservation needs of the Russian River Basin. As a result of these studies, in 1944 the Corps released a plan that called for a multi-purpose dam to be constructed on the East Fork of the Russian River, a similar dam to be constructed on Dry Creek, and construction of many miles of channel stabilization works along the Russian River.

Congress approved the Corps's plan in 1950 and authorized the initial stage, the Coyote Valley Dam, to provide both water supply and flood control for Mendocino and Sonoma counties. Sonoma County voters approved general obligation bonds to finance the local share of the cost of the Coyote Valley Dam in 1955. Mendocino County voters approved the establishment of the Mendocino District and the issuance of bonds to pay Mendocino County's share of the local project costs in January 1956.

Construction of Coyote Dam began in 1956, and in January 1959 Lake Mendocino became available for water supply.

Transmission System To Serve Sonoma And Marin Counties

When Sonoma County voters authorized bonds for Coyote Valley Dam, they also authorized bonds to construct a water Transmission System to serve county residents. The first project, consisting of the Santa Rosa Aqueduct and two Ranney collector wells, was completed in 1959 and pipelines from the Santa Rosa Aqueduct to Petaluma and Forestville were operating two years later. North Marin Water District, serving the greater Novato area in Marin County, was an original participant in the payment for the Petaluma Aqueduct. In 1963, the Sonoma Aqueduct was completed.

During the 1960s, the water Transmission System had nearly reached its capacity, and a Sonoma-Marin Aqueduct project was proposed to serve both Sonoma and Marin county needs. In 1971, this project was rejected by Marin County voters. The project was redesigned and was renamed the Russian River-Cotati Intertie Project. Sonoma County voters approved the project after opponents of the project circulated an initiative placing the project on the 1972 primary ballot.

An agreement to finance and construct the project was entered into in 1974. The parties to the agreement were the Agency and the cities of Cotati, Petaluma, Rohnert Park, Santa Rosa, and Sonoma, and the Forestville, North Marin, and Valley of the Moon water districts. The agreement has been amended eleven times since 1974, most recently in 2001.

Warm Springs Dam

Construction of the second Russian River Project dam, Warm Springs Dam, was completed in 1982. Warm Springs Dam was constructed by the U.S. Army Corps of Engineers, and was financed jointly by the United States and the Agency. Water Agency sponsorship of the Dam project was ratified by Sonoma County voters in November 1974 and November 1979.

The Agency's Transmission System

The Agency's water Transmission System includes diversion and chlorination and pH adjustment facilities near the Russian River at Wohler and Mirabel, and an aqueduct system comprised of pipelines, pumps, and storage tanks. This system conveys water from the diversion facilities on the Russian River to service areas in southern Sonoma County and portions of Marin County.

Diversion Facilities

The Agency operates five Ranney collector wells adjacent to the Russian River near Wohler Road and Mirabel which extract water from the aquifer beneath the streambed. Each Ranney collector well consists of a 16-foot outside diameter concrete caisson extending 80 to 100 feet deep into the streambed gravel. Perforated horizontal intake pipes extend radially from the bottom of each caisson to a maximum of 175 feet into the aquifer. Ten vertical turbine pumps, two installed in each of the five Ranney collectors, provide the primary pumping for the pipeline system. Collector wells 1 and 2 were completed in 1959. Collector wells 3 and 4 were completed in 1976, with all pumps installed by 1978. Collector well 5 was completed in 1983.

In addition to the Ranney collector wells, seven conventional wells located at Mirabel also pump water from the aquifer beneath the Russian River.

The ability of the Russian River diversion facilities to produce water is generally limited by the rate of recharge to the aquifer through the streambed. To augment this rate of recharge, the Agency has constructed several infiltration ponds. An inflatable dam, located on the Russian River just upstream of the three collectors in the Mirabel area, raises the water level and submerges the intakes to three diversion pumps. The water is pumped through a dike into a system of ditches that supply water to four infiltration ponds. The backwater created by the inflatable dam also raises the upstream water level and submerges a larger streambed area along the river. This increased depth and enlargement of the submerged area significantly increases infiltration to the aquifer.

The inflatable dam is made of a synthetic rubber material and is attached to a concrete foundation in the river bed. Permanent fish ladders provide fish passage when the dam is raised. Water is drawn through fish screens at the intake structure to the

diversion caisson. After flowing through a sedimentation pond adjacent to the diversion caisson, water flows through manually operated flood gates to each infiltration pond through a system of ditches.

The existing infiltration ponds at Mirabel cover approximately 40 acres. Two more ponds near the Wohler collectors, which submerge another 1.7 acres, are filled when the river water surface is raised by the inflatable dam. The inflatable dam is usually raised in the late spring when water supply demands increase and lower Russian River flows drop to between 500 and 1,000 cfs.

Pipelines

Water is transported from the Agency's diversion facilities through a system of pipelines, consisting primarily of the Santa Rosa, Forestville, Sonoma, and Petaluma Aqueducts and the Russian River-Cotati Intertie. The pipeline system is designed to carry the anticipated average daily demand during the month of maximum demand (peak month), usually June, July or August. Currently, the highest peak-month demand (average daily pumping during the month) experienced by the Agency was 80.1 mgd, which occurred in July 2002. Several storage tanks in the system provide storage for peak demand periods and emergencies. The length and/or capacity of existing aqueducts or storage facilities are set forth below.

Agency Aqueducts

<u>Aqueduct Name</u>	<u>Predominant Diameter</u>	<u>Total Length</u>	<u>Year Completed</u>
Santa Rosa	36-42 inches	82,850 feet	1959
Cotati Intertie	48 inches	95,750 feet	1977
Wohler-Mirabel Intertie	20 inches	6,850 feet	1972
Forestville	8 inches	18,850 feet	1962
Petaluma	24-33 inches	94,450 feet	1962/1974
Sonoma	16-20 inches	123,300 feet	1965/1989
Windsor/Airport	12 inches	5,650 feet	1967/1980
West Transmission	36 inches	12,600 feet	1987

Agency Water Storage Tanks

<u>Tank Name</u>	<u>General Location</u>	<u>Number of Tanks</u>	<u>Total Capacity (million gallons)</u>
Ralphine	Spring Lake Park, Santa Rosa	4	36.0
Cotati	West Sierra Avenue, Cotati	3	36.0
Forestville	Anderson Road, Forestville	2	1.3
Annadel #1	Oakmont, Santa Rosa	1	2.5
Annadel #2	Los Guilucos, Santa Rosa	1	3.0
Eldridge	Sonoma Valley Park, Valley of the Moon	2	8.0
Sonoma	1 st Street West, Sonoma	2	10.0
Kastania	Kastania Road, Petaluma	1	<u>12.0</u>
TOTAL			<u>108.8</u>

As noted earlier, the pumps located at the Ranney collector wells provide the primary pumping for the aqueduct system. The Transmission System also includes seven booster pump stations. Booster pumps are necessary to increase water pressure and/or to move water to areas of higher elevation. The station name, number of pumps at each station, and horsepower of each pump are shown below.

<u>Station Name</u>	<u>Number of Pumps</u>	<u>Total Rated Horsepower</u>
Forestville #1	2	15
Forestville #2	2	60
Sonoma #1	3	855
Sonoma #2	1	250
Wilfred	1	700
Ely	2	1,000
Eldridge	1	75

pH Adjustment/Corrosion Control System

A pH adjustment/corrosion control system was constructed in response to 1991 Environmental Protection Agency (EPA) regulations, which limit lead and copper content in drinking water. These facilities are located at the Agency's Wohler Maintenance Yard and the River Road Chlorination Building. The facilities treat water in each of the Agency's two primary water transmission lines, the Russian River-Cotati Intertie pipeline and the Santa Rosa Aqueduct. Although the Agency's water contains no detectable levels of lead and copper, the water is naturally moderately corrosive and can leach lead and copper from indoor plumbing and water fixtures. Caustic soda (sodium hydroxide, NaOH), is the chemical solution added to the water by the Agency to control corrosivity.

Groundwater Wells

The Agency owns and operates three groundwater wells located along the Russian River-Cotati Intertie pipeline in the Santa Rosa Plain: the Occidental Road Well, the Sebastopol Road Well, and the Todd Road Well. These wells are used to provide an auxiliary water supply to the Agency's customers.

Warm Springs Dam Hydroelectric Facility

The Agency operates a hydroelectric facility at Warm Springs Dam as a part of the Transmission System. The nameplate rating of the facility is 2.79 megawatts, and it produces approximately 13 to 14 gigawatt-hours of power annually. Power produced by the facility is sold to PG&E under a Standard Offer No. 4 power purchase agreement, which was amended in 2001 to change the power sale price to an annual weighted average of 5.37 cents per kilowatt hour. The agreement with PG&E expires in 2004. Actual and estimated annual power sales revenues are shown on Tables 5 and 6.

Facilities Under Construction

Several additional major Transmission System facilities are currently under construction. These are a new Ranney collector well located at Wohler (referred to as Collector No. 6); the Kawana Springs Pipeline East (approximately 41,700 linear feet of 36-inch diameter pipe), which will be used to supply existing and planned storage tanks at Kawana Springs; and the Kawana Springs Booster Pump.

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APPENDIX E

WATER TRANSMISSION SYSTEM CAPITAL IMPROVEMENT PROJECTS

Proposed Capital Improvement Plan

The Agency's Board of Directors approved and certified the Final Environmental Impact Report for the Water Supply and Transmission System Project (WSTSP) in December 1998. The WSTSP involves (1) the construction of facilities that would allow for an increase in the amount of water diverted from the Russian River from 75,000 acre-feet per year to approximately 101,000 acre-feet per year,³ and an increase in Transmission System delivery capacity from 92 mgd to 149 mgd (on the average day, peak month) and (2) institution of water conservation measures that would result in the savings of approximately 6,600 acre-feet per year and an expansion of the Agency's existing water education program.

The Eleventh Amended Agreement among the Agency and its Prime Contractors provides the mechanism for implementing the WSTSP, and authorizes the financing, design, construction, operation, and maintenance of water supply and expanded Transmission System facilities.

Capital improvements associated with the WSTSP include (1) additional diversion facilities, which may include Ranney-type collector wells, conventional wells, infiltration ponds, diversion structures, water treatment facilities, pumps, connecting pipelines, and appurtenances in the general area of the Russian River watershed downstream of Lake Sonoma/Warm Springs Dam, and (2) additional pipelines, storage tanks, and booster pump stations for the water distribution system expansion. These improvements, which are estimated to cost approximately \$186,100,000 (in 2001 Dollars), are described in detail herein.

Diversion Facilities

Diversion facilities would be located in the general area of the Russian River watershed downstream of Lake Sonoma/Warm Springs Dam. These facilities will consist of Collector No. 6 (an element of the earlier Russian River-Cotati Intertie Project) and other similar diversion facilities along the Russian River. Collector No. 6 is currently being constructed, and will be operated and maintained similarly to other collectors now operating in the Wohler and Mirabel area. The construction of Collector No. 6 is being funded by a State Revolving Fund loan.

Additional diversion facilities would be located in the general area of the Russian River watershed downstream of Lake Sonoma/Warm Springs Dam. Although potential diversion facilities might include conventional wells, Ranney-type collector wells, or a surface water treatment plant, the Agency currently plans to construct and operate as many as three additional Ranney-type collector wells (in addition to Collector No. 6).

Other appurtenances associated with the collector or conventional wells may include, but would not be limited to: connecting pipelines, access roads, observation wells, electrical equipment, radio telemetry equipment, water treatment (disinfection and pH adjustment) facilities, and emergency power generators and associated fuel storage. If production capacity can be achieved via natural recharge to the aquifer, no additional diversion structures or infiltration ponds will be necessary; however, if artificial recharge is necessary it is likely that additional infiltration ponds or diversion structures will be required. The three additional Ranney Collector wells, with the above-described appurtenances would be constructed as needed to provide the necessary production capacity.

Pipelines

The WSTSP includes five major pipeline routes that would generally parallel the existing transmission pipelines. Actual pipeline alignments will be determined in the future.

Pipeline construction involves installation of approximately 241,000 linear feet of underground 18- to 60-inch diameter, mortar-lined and coated, steel pipe and appurtenances. The five pipelines proposed for the project are described below.

Wohler-Forestville Pipeline: The Wohler-Forestville Pipeline would extend from the Agency's facilities at the Wohler area and generally parallel the existing Forestville Aqueduct for approximately 2.5 miles and connect with the existing Russian River-Cotati Intertie pipeline near Forestville. The pipeline would consist of approximately 12,000 linear feet of 36 to 60-inch diameter pipe. This pipeline would connect the 8 mgd of production and 20 mgd of standby capacity provided by Collector No. 6 to the Russian-River Cotati Intertie pipeline, and is an element of the Russian River-Cotati Intertie Project.

³ Of the 101,000 acre-feet per year total, 9,600 acre-feet per year would be diverted directly by entities (including the Town of Windsor) that report diversions under the Agency's water rights permits.

Mirabel-Cotati Pipeline: The Mirabel-Cotati Pipeline would extend from the Agency's facilities in the Mirabel area, and generally parallel the existing Russian River-Cotati Intertie pipeline for approximately 14.5 miles to Cotati. The pipeline would consist of approximately 72,000 linear feet of 48- to 54-inch diameter pipe.

Cotati-Kastania Pipeline: The Cotati-Kastania Pipeline would generally parallel a portion of existing Petaluma Aqueduct, extending from Cotati to the southern end of Petaluma, for a distance of approximately 13 miles. The pipeline would consist of approximately 59,000 linear feet of 48-inch diameter pipe.

Kawana-Ralphine Pipeline: The Kawana-Ralphine Pipeline would connect with the Agency's Kawana Springs Tanks site at the end of Kawana Springs Road in southeast Santa Rosa and extend in a northeasterly direction to connect with the Agency's Ralphine Tanks and Sonoma Booster Pump Station, a distance of approximately five miles. The pipeline would consist of approximately 26,000 linear feet of 30- to 36-inch diameter pipe.

Eldridge-Madrone Pipeline, a component of the Annadel-Sonoma Pipeline: The Eldridge-Madrone Pipeline, a component of the Annadel-Sonoma Pipeline would generally parallel the existing Sonoma Aqueduct from the area of Pythian Road to Sonoma, a distance of approximately 13 miles. The pipeline would consist of approximately 65,000 linear feet of 18- to 24-inch diameter pipeline. The consent of Valley of the Moon and Sonoma is required prior to awarding contracts to construct this pipeline.

Water Storage Tanks

Four to five steel water storage tanks would be constructed, operated, and maintained to provide additional water storage along the water Transmission System. One of these tanks, Kawana Springs Tank No. 2, has been described in project-level detail in the 1998 WSTSP EIR. Actual locations for the other tanks will be determined in the future and evaluated in future project-level CEQA evaluations.

In order to provide sufficient water to meet peak daily and hourly demands plus emergency uses (fire, system outages, etc.), a balanced mix of pipeline size and pump capacity together with storage must be maintained. Based on the Agency's past operational experience, a storage capacity in the amount of 1.5 times the average daily use during the peak month appears to best meet such needs. Based on this criterion, the total storage required to meet demands in the Agency's service area would be approximately 174.3 million gallons (MG). Existing storage of 118.8 MG is currently in place or will be available in the near future. An additional 55.5 MG of storage is therefore necessary and will be constructed as part of the WSTSP. The above-described existing and future storage volumes exclude North Marin Water District and Marin Municipal Water District, which are responsible for their own storage.

Water storage tank construction involves grading and site preparation of the tank site, installation of a welded steel tank and appurtenances, paving the perimeter area around the tank for service access, application of protective coatings to the exterior and interior of the tank, installation of security fencing, and construction of access roads. All tanks would have a separate inlet and outlet (flow-through type) and would connect with the Agency's Transmission System pipelines via underground pipelines. The connecting pipelines would consist of two parallel steel pipes, one for inflow and one for outflow, each 24 to 48 inches in diameter, mortar-lined, and coated.

The proposed tanks are described below, by location.

Kawana Springs Tank No. 2: The proposed site for this tank is located approximately 3/4 of a mile easterly of the intersection of Kawana Springs Road and Petaluma Hill Road, in an unincorporated area adjacent to the southerly limits of the City of Santa Rosa. The tank would be installed adjacent to Kawana Springs Tank No. 1 at a base elevation of 320 feet mean sea level (MSL), have a capacity of 10 MG, a diameter of 170 feet, and be approximately 65 feet high.

Cotati Tank(s): The conceptual site(s) for 33.5 MG of water storage is in the vicinity of the Agency's three existing Cotati Tanks. One to three additional tanks would be installed at a base elevation of 305 feet MSL, and have a total capacity of 33.5 MG. The diameter of each tank would be dependent on how many tanks were constructed; the height would be approximately 40 feet.

Kastania Tank No. 2: The conceptual location for this storage tank is in the vicinity of the Agency's existing Kastania Tank No. 1. The tank would be installed at a base elevation of 195 feet MSL, have a capacity of 12 MG, a diameter of 230 feet, and would be approximately 45 feet high.

Booster Pump Stations

Two booster pump stations are proposed to be constructed, operated, and maintained as part of the WSTSP. Actual locations and sizes of booster pump stations will be determined in the future and will be described in project-level detail in future

environmental documents. Booster pump stations are necessary to achieve the full delivery potential of the Transmission System. Facilities consist of booster pump(s) and motor(s), connecting pipeline, and appurtenances in a masonry building. Masonry buildings would be approximately 20 feet wide by 25 feet long and 12 to 15 feet high. Pumps would vary in size from 250 to 1,500 horsepower (hp). The booster pump stations would be connected to the Transmission System via 18- to 48-inch diameter mortar-lined and coated steel pipe. The lengths of connecting pipelines required would vary with the booster station site chosen. Access roads to booster pump stations would be composed of shale, or may be paved. The proposed booster pump stations would each require increased electrical power consisting of a substation (1 kilowatt per each unit of pump horsepower, plus an additional amount for service power to the booster pump station), switchgear, surge protection, and 20-foot high antenna masts. Emergency generators would provide standby power. Diesel fuel storage would be needed for the generators, and would be stored in above-ground double-containment tanks constructed on concrete slab foundations.

The proposed booster pump stations are described below, by conceptual location.

Cotati-Kastania Booster Pump Station: This booster pump station would be located along the Cotati-Kastania Pipeline. The actual location will be determined in the future. The pump size would be between 500 and 1,500 hp, and the size of the electrical substation would be between 500 and 1,700 kilowatts. Diesel fuel storage is needed for approximately 25,000 gallons.

Sonoma Booster Pump Station Modification (Station 2, Pumps No. 2 and 3): This booster pump station would be a modification of the existing Sonoma Booster Pump Station No. 2, located near Spring Lake Park in east Santa Rosa. Two pumps, each approximately 250 hp, would be installed, and modifications to the existing electrical substation would be necessary to increase power by 500 kilowatts. Existing diesel fuel storage at the site would be increased by 15,000 gallons.

WTSP Construction Schedule

The capital projects proposed under the WTSP would be constructed as they become necessary to meet demands in the Agency's service area. The table on the following page shows the proposed schedule and estimated costs (in 2001 Dollars) for the construction of WTSP capital projects through the year 2036.

SONOMA COUNTY WATER AGENCY
Water Supply and Transmission System Project (WTSP)
Proposed Schedule and Estimated Costs (in 2001 Dollars)

#	PROJECT NAME	FISCAL YEAR	TOTAL
1	Collector 6 - Wohler/Forestville Pipeline	2002-03	\$6,000,000
2	Kawana Springs Tank No. 2 (10 MG)	2002-03	4,500,000
3	Annadel-Sonoma Pipeline (8,500'-24")	2002-03	4,500,000
4	Purchase of Capacity in Oakmont Pipeline	2005-06	3,700,000
5	Cotati-Kastania Pipeline (11,500'-48")	2006-07	5,400,000
6	Cotati-Kastania Pipeline (22,500'-48")	2006-07	10,500,000
7	Cotati-Kastania Pipeline (25,000'-48")	2006-07	11,700,000
8	Cotati-Kastania Pipeline (8,000'-42")	2006-07	3,000,000
9	Cotati-Kastania Booster Pump Station	2006-07	2,800,000
10	Water Supply Facility - A (19 MGD)	2008-09	20,400,000
11	Kastania Tank No. 2 (12 MG)	2008-09	5,550,000
12	Kawana-Ralphine Pipeline (24,000'-36")	2009-10	10,600,000
13	Kawana-Ralphine Pipeline (2,000'-30")	2009-10	1,500,000

14	Annadel-Sonoma Pipeline (26,000'-24")	2011-12	7,050,000
15	Mirabel-Cotati Pipeline (31,000'-54")	2013-14	17,100,000
16	Mirabel-Cotati Pipeline (41,000'-48")	2013-14	20,900,000
17	Annadel-Sonoma Pipeline (7,000'-24")	2013-14	2,450,000
18	Water Supply Facility - B (19 MGD)	2019-20	10,000,000
19	Cotati Tank No. 4 (6 MG)	2023-24	3,800,000
20	Annadel-Sonoma Pipeline (17,000'-20")	2024-25	4,450,000
21	Annadel-Sonoma Pipeline (7,000'-18")	2025-26	2,200,000
22	Water Supply Facility - C (19 MGD)	2032-33	16,000,000
23	Sonoma Booster Pump Station Modification	2033-34	1,100,000
24	Cotati Tank No. 5 (27.5 MG)	2035-36	10,900,000
	TOTAL		\$ 186,100,000

WSTSP Financing Plan

The Final Environmental Impact Report for the WSTSP, certified by the Board in December 1998, contained an Economic and Financial Report (Financial Report). The Financial Report discussed (1) the projected revenues and expenses associated with the construction, operation, and maintenance of WSTSP facilities, (2) the sources of capital available to the Agency, and (3) a proposed plan for financing the capital costs of the WSTSP facilities. The Agency updated the Financial Report in September 2001. Some of the key highlights of the updated financing plan are given below.

The water rate impacts to homeowners, businesses, and others resulting from the WSTSP depend to a large extent on when facilities are constructed. To minimize rate impacts, it is desirable to defer construction of facilities until they actually become necessary, which allows time to set aside funds in advance of construction. In order to determine the dates when particular facilities would become necessary, the Agency has assumed that water use and demand by its customers would increase by 2% per year.

The Agency estimates that the planning, design, right-of-way negotiations, and construction of WSTSP capital projects would require a capital investment of approximately \$186,100,000 in 2001 dollars over the 36-year period from 2001 to 2037. Under the financing plan, current earnings would be relied upon to finance WSTSP capital projects to the maximum extent possible. This "pay-as-you-go" concept matches projected revenues from water deliveries with the projected cost of expanding, operating, and maintaining the water Transmission System and minimizes the interest costs of borrowing. To accomplish this, it would be necessary to eventually generate approximately \$5.0 million per year of additional revenue (in excess of operating expenses) through the year 2037. With the concurrence of the Water Advisory Committee, the Eleventh Amended Agreement permits the Agency to increase the Maintenance and Operation Charges assessed to its Prime Contractors in order to collect additional revenues for capital projects. These additional revenues would be transferred each year from the Water Transmission System Fund (also known as the Operations and Maintenance Fund) to the appropriate construction funds.

The Eleventh Amended Agreement also authorizes the Agency (with the concurrence of the Water Advisory Committee) to collect additional aqueduct revenue bond charges earmarked for aqueduct capital projects before the issuance of revenue bonds. By collecting a portion of the capital cost of aqueduct facilities in advance, the Agency can reduce the amount of debt to be incurred. Furthermore, advance aqueduct revenue bond charges reduce the impact of increases of future aqueduct revenue bond charges due to the issuance of the new debt. The ability of the Agency to collect aqueduct Capital Charges in advance of debt issue thus serves as a rate stabilization mechanism.

Using the water use projections described above, projected rates for water supplied from particular aqueducts are described below. As noted above, the figures below are given in 2001 dollars, and are not adjusted for inflation.

In the case of the Santa Rosa Aqueduct, the water rate is projected to generally rise moderately through the years (1 – 5% annually). However, it is estimated that there would be a sharp increase (8 – 10%) in the years 2008-09 and 2009-10

reflecting the increase in debt service costs associated with construction of common facilities projects. The maximum rate projected for Santa Rosa Aqueduct water would be approximately \$509.00 per acre-foot in Fiscal Year 2026-27 (in 2001 dollars). The City of Santa Rosa and the Town of Windsor receive water from the Santa Rosa Aqueduct.

In the case of the Petaluma Aqueduct, the water rate would rise through Fiscal Year 2014/15 due to the construction of the Cotati-Kastania Pipeline, remain steady from 2015-16 to 2026-27, and then decline as debt service costs decrease as bonds are paid off. The maximum rate (in 2001 dollars) projected for Petaluma Aqueduct water would be approximately \$653.00 per acre-foot in Fiscal Year 2022/23. The North Marin Water District, Marin Municipal Water District and the cities of Rohnert Park, Cotati, and Petaluma receive water from the Petaluma Aqueduct.

For the Forestville Aqueduct, which serves the Forestville Water District, the maximum projected rate would be \$509.00 per acre-foot for Fiscal Year 2026/27 (in 2001 dollars). In the case of Sonoma Aqueduct, which serves the City of Sonoma and the Valley of the Moon Water District, the maximum projected rate would be approximately \$738.00 per acre-foot in Fiscal Year 2026/27 (in 2001 dollars).

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APPENDIX F

[LETTERHEAD OF HANSON, BRIDGETT, MARCUS, VLAHOS, RUDY, L.L.P.]

January __, 2003

Board of Directors
Sonoma County Water Agency
2150 West College Avenue
Santa Rosa, California 95401

Subject: \$15,680,000 Sonoma County Water Agency
Water Revenue Bonds, 2003 Series A

Members of the Board:

We have acted as Bond Counsel in connection with the issuance by the Sonoma County Water Agency (the "Agency") of the \$15,680,000 Sonoma County Water Agency Water Revenue Bonds, 2003 Series A (the "2003 Series A Bonds"), pursuant to Sonoma County Water Agency Act (Cal. Stat. 1949, c. 994, as amended) (the "Act"), Master Ordinance No. 1, adopted December 28, 1970, as supplemented and amended to date (the "Master Ordinance"), and a Sixth Supplemental Ordinance of the Board of Directors of the Agency (the "Supplemental Ordinance") adopted on December 3, 2002. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Master Ordinance and Supplemental Ordinance (collectively, the "Ordinance") and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public Agency and political subdivision of the State of California with the power to adopt the Ordinance, perform the agreements on its part contained therein, and issue the 2003 Series A Bonds.
2. The Ordinance has been duly approved by the Agency and constitutes a valid and binding obligation of the Agency enforceable upon the Agency except as hereinafter provided.
3. Pursuant to the Act, the Ordinance creates a valid lien on the Net Revenues pledged by the Ordinance for the security of the 2003 Series A Bonds.
4. The 2003 Series A Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency, payable solely from the sources provided therefor in the Ordinance.
5. The interest on the 2003 Series A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the 2003 Series A Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the 2003 Series A Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2003 Series A Bonds. We express no opinion regarding other federal tax consequences arising with respect to the 2003 Series A Bonds.
6. The interest on the 2003 Series A Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the 2003 Series A Bonds and the enforceability of the 2003 Series A Bonds, the Ordinance may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

HANSON, BRIDGETT, MARCUS, VLAHOS, RUDY, L.L.P.

Lawyers

APPENDIX G
FORM OF CONTINUING DISCLOSURE AGREEMENT

\$15,680,000
SONOMA COUNTY WATER AGENCY
Water Revenue Bonds, 2003 Series A

DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the "Disclosure Agreement"), dated as of _____, 2002, is executed and delivered by Sonoma County Water Agency (the "Agency") and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent" or "DAC") for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

Section 1. Definitions.

Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Report" means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

"Annual Filing Date" means the date, set in Sections 2(a) and 2(t), by which the Annual Report is to be filed with the Repositories.

"Annual Financial Information" means mutual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) at this Disclosure Agreement.

"Audited Financial Statements" means the financial statements (if any) at the Agency for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"Bonds" means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice required to be submitted to the Repositories under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"Disclosure Representative" means Krishna Kumar, Division Manager-Administrative Services, the senior member of the Agency or his or her designee, or such other person as the Agency shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"Disclosure Dissemination Agent" means Digital Assurance Certification, L.L.C., acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Agency pursuant to Section 9 hereof.

"Holder" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"Information" means the Annual Financial Information, the Audited Financial Statements (if any) the Notice Event notices, and the Voluntary Reports.

"Notice Event" means an event listed in Sections 4(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 158(b)(1) of the Securities Exchange Act of 1934.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The list of National Repositories maintained by the United States Securities and Exchange Commission shall be conclusive for purposes of determining National Repositories. Currently, the following are National Repositories:

1. DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
201-346-0701 (telephone)
201-947-0107 (facsimile)
Email: nrmsir@dpcdata.com
2. Interactive Data
Attention: Repository
100 Williams Street
New York, New York 10038
212-771-6999 (telephone)
212-771-7390 (facsimile for secondary market information)
212-771-7391 (facsimile for primary market information)
Email: nrmsir@ftid.com
3. Bloomberg Municipal Repositories
Post Office Box 840
Princeton, New Jersey 08542-0840
609-279-3225 (telephone)
609-279-5962 (facsimile)
Email: munis@bloomberg.com
4. Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
212-438-4595 (telephone)
212-438-3975 (facsimile)
Email: nrmsir_repository@sandp.com

"Official Statement" means that Official Statement prepared by the Agency in connection with the 2003 Series A Bonds, as listed on Appendix A.

"Repository" means the MSRB, each National Repository and the State Depository (if any).

"State Depository" means any public or private depository or entity designated by the State of California as a state information depository (if any).

"Trustee" means the institution identified as such in the document under which the 2003 Series A Bonds were issued.

"Voluntary Report" means the information provided to the Disclosure Dissemination Agent by the Agency pursuant to Section 7.

Section 2. Provision of Annual Reports.

- (a) The Agency shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than 30 days prior to the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to each National Repository and the State Depository (if any) not later than 270 days after the end of each fiscal year of the Agency, commencing with the fiscal year ending June 30, 2002. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.
- (b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Agency of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Agency will not be able to file the Annual Report within the time required under this Disclosure Agreement; state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination agent that a Notice Event as described in Section 4(a)(12) has occurred and to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as Exhibit B.
- (c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, a Notice Event described in Section 4(a)(12) shall have occurred and the Agency irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as Exhibit B.
- (d) If Audited Financial Statements of the Agency are prepared but not available prior to the Annual Filing Date, the Agency shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Trustee, for filing with each National Repository and the State Depository (if any).
- (e) The Disclosure Dissemination Agent shall:
 - (i) determine the name and address of each Repository each year prior to the Annual Filing Date;
 - (ii) upon receipt, promptly file each Annual Report received under Section 2(a) with each National Repository. and the State Depository, (if any);
 - (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with each National Repository, and the State Depository (if any);
 - (iv) upon receipt, promptly file the text at each disclosure to be made with each National Repository or the MSRB and the State Depository (if any) together with a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as Exhibit C, describing the event by checking the box indicated below when filing pursuant to the Section of this Disclosure Agreement indicated:
 - 1. "Principal and interest payment delinquencies," pursuant to Sections 4(c) and 4(a)(1);
 - 2. "Non-Payment related defaults," pursuant to Sections 4(c) and 4(a)(2);
 - 3. "Unscheduled draws on debt service reserves reflecting financial difficulties," pursuant to Sections 4(c) and 4(a)(3);

4. "Unscheduled draws on credit enhancements reflecting financial difficulties," pursuant to Sections 4(c) and 4(a)(4);
5. "Substitution of credit or liquidity providers, or their failure to perform," pursuant to Sections 4(c) and 4(a)(5);
6. "Adverse tax opinions or events affecting the tax-exempt status of the security," pursuant to Sections 4(c) and 4(a)(6);
7. "Modifications to rights of securities holders," pursuant to Sections 4(c) and 4(a)(7);
8. "Bond calls," pursuant to Sections 4(c) and 4(a)(8);
9. "Defeasances," pursuant to Sections 4(c) and 4(a)(9);
10. "Release, substitution, or sale of property securing repayment of the securities," pursuant to Sections 4(c) and 4(a)(10);
11. "Ratings changes," pursuant to Sections 4(c) and 4(a)(11);
12. "Failure to provide annual financial information as required," pursuant to Section 2(b)(ii) or Section 2(c), together with a completed copy of Exhibit B to this Disclosure Agreement;
13. "Other material event notice (specify)," pursuant to Section 7 of this Agreement, together with the summary description provided by the Disclosure Representative.

(v) provide the Agency evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

- (f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the Repositories, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

Section 3. Content of Annual Reports.

- (a) Each Annual Report shall contain Annual Financial Information with respect to the Agency, including the information provided in the Official Statement under the headings: "AGENCY WATER TRANSMISSION SYSTEM ENTERPRISE FUNDS, FINANCIAL INFORMATION, Tables 1, 2, 4, 5, and 6. Table 7 will be provided separately or fully integrated into Table 5.
- (b) Audited Financial Statements prepared in accordance with [GAAP OR alternate accounting principles] as described in the Official Statement will be included in the Annual Report. Unaudited financial statements, prepared in accordance with [generally accepted accounting principles ("GAAP") OR alternate accounting principles as described in the Official Statement] will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements at debt issues with respect to which the Agency is an "obligated person" (as defined by the Rule), which have been previously filed with each of the National Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Agency will clearly identify each such document so incorporated by reference.

Section 4. Reporting of Notice Events.

- (a) The occurrence of any of the following events, if material, with respect to the Bonds constitutes a Notice Event:
1. Principal and interest payment delinquencies;
 2. Non-payment related defaults;
 3. Unscheduled draws on debt service reserves reflecting financial difficulties;
 4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
 5. Substitution of credit or liquidity providers, or their failure to perform;
 6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
 7. Modifications to rights of Bond holders;
 8. Bond calls;
 9. Defeasances;
 10. Release, substitution, or sale of property securing repayment of the Bonds;
 11. Rating changes on the Bonds;
 12. Failure to provide annual financial information as required, and
 13. Other material event notice (specify) _____.

The Agency shall promptly notify the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c). Such notice shall be accompanied with the text of the disclosure that the Agency desires to make, the written authorization of the Agency for the Disclosure Dissemination Agent to disseminate such information, and the date the Agency desires for the Disclosure Dissemination Agent to disseminate the information.

- (b) The Disclosure Dissemination Agent is under no obligation to notice the Agency or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within five business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c), together with the text of the disclosure that the Agency desires to make, the written authorization of the Agency for the Disclosure Dissemination Agent to disseminate such information, and the date the Agency desires for the Disclosure Dissemination Agent to disseminate the information.
- (c) If the Disclosure Dissemination Agent has been instructed by the Agency as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the State Depository (if pay) and (i) each National Repository, or (ii) the MSRB.

Section 5. CUSIP Numbers.

Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and Voluntary Reports filed pursuant to Section 7(a), the Agency shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

Section 6. Additional Disclosure Obligations.

The Agency acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Agency, and that the failure of the Disclosure Dissemination Agent to so advise the Agency shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Agency acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

Section 7. Voluntary Reports.

- (a) The Agency may instruct the Disclosure Dissemination Agent to file information with the Repositories, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information (a "Voluntary Report").
- (b) Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice, in addition to that required by this Disclosure Agreement. If the Agency chooses to include any information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement, the Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice.

Section 8. Termination of Reporting Obligation.

The obligations of the Agency and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the 2003 Series A Bonds upon the legal defeasance, prior redemption or payment in full of all of the 2003 Series A Bonds, when the Agency is no longer an obligated person with respect to the 2003 Series A Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

Section 9. Disclosure Dissemination Agent.

The Agency has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Agency may, upon thirty days written notice, to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Agency or DAC, the Agency agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Agency shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days prior written notice to the Agency.

Section 10. Remedies in Event of Default.

In the event of a failure of the Agency or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

Section 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

- (a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Agency and shall not be deemed to be acting in any fiduciary capacity for the Agency, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Agency's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Agency has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Agency at all times.

THE ISSUER AGREES TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT'S NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Agency under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

- (b) The Disclosure Dissemination Agent may, from time to time with prior written notice to the Issuer consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Agency.

Section 12. Amendment; Waiver.

Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Agency and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Agency or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Agency. No such amendment shall become effective if the Agency shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

Section 13. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the Agency, the Trustee of the Bond, the Disclosure Dissemination Agent, the Underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Governing Law.

This Disclosure Agreement shall be governed by the laws of the State of New York (other than with respect to conflicts of laws).

Section 15. Counterparts.

This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Agency have caused this Disclosure Dissemination Agent Agreement to be executed on the date first written above, by their respective officers duly authorized.

Digital Assurance Certification, L.L.C., as Disclosure
Dissemination Agent

By: _____
Name: _____
Title: _____

Sonoma County Water Agency, as Issuer

By: _____
Name: _____
Title: _____

Exhibit A
Name and CUSIP Number of Bonds

Name of Issuer: _____
Obligated Person(s): _____
Name of Bond Issue: _____
Date of Issuance: _____
Date of Official Statement: _____

CUSIP Number: _____
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Name of Issuer: _____
Obligated Person(s): _____
Name of Bond Issue: _____
Date of Issuance: _____
Date of Official Statement: _____

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Exhibit B
Notice to Repositories of Failure to File Annual Report

Issuer:	_____
Obligated Person:	_____
Name of Bond Issue:	_____
Date of Issuance:	_____

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement, dated as of _____, _____, between the Agency and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Agency has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____, _____

Digital Assurance Certification, L.L.C., as Disclosure
Dissemination Agent, on behalf of the Issuer

cc: Issuer
 Obligated Person

Exhibit C
Material Event Notice Cover Sheet

This cover sheet and material event notice should be sent to the Municipal Securities Rulemaking Board or to all Nationally Recognized Municipal Securities Information Repositories and the State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this material event notice relates:

Number of pages of attached material event notice: _____

Description of Material Events Notice (Check One):

1. ☐ Principal and interest payment delinquencies
2. ☐ Non-Payment related defaults
3. ☐ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ☐ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ☐ Substitution of credit or liquidity providers, or their failure to perform
6. ☐ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ☐ Modifications to rights of securities holders
8. ☐ Bond calls
9. ☐ Defeasances
10. ☐ Release, substitution, or sale of property securing repayment of the securities
11. ☐ Rating changes
12. ☐ Failure to provide annual financial information as required
13. ☐ Other material event notice (specify) _____

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____

Title: _____

Employer: Digital Assurance Certification, L.L.C.

Address: _____

City, State, Zip Code: _____

Voice Telephone Number: _____

Please print the material event notice attached to this cover sheet in 10-point type or larger. The cover sheet and notice may be faxed to the MSRB at 703-683-1930 or sent to CDINet Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. Contact the MSRB at 703-797-6600 with questions regarding this form or the dissemination of this notice.

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND EACH STATE
REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: SONOMA COUNTY WATER AGENCY

Name of Issue: \$15,680,000 Water Revenue Bonds, 2003 Series A

Date of Issuance: January 7, 2003

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Certificates as required by the Supplemental Ordinance, dated as of December 3, 2002, of the Agency. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

SONOMA COUNTY WATER AGENCY

By _____

cc: Trustee

APPENDIX H

BOOK ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2003 Series A Bonds. The 2003 Series A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond will be issued for each maturity of the 2003 Series A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose, trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities Bonds. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 Series A Bonds and DTC's records. The ownership interest of each actual purchaser of each bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003 Series A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the 2003 Series A Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Series A Bonds;

DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the 2003 Series A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting right to those Direct Participants to whose accounts the 2003 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2003 Series A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Agency or Agent, disbursement of such payments to Direct Participants shall be

the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2003 Series A Bonds at any time by giving reasonable notice to the Agency or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Agency believes to be reliable, but the Agency takes no responsibility for the accuracy thereof.

APPENDIX I
BOND INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Surety Bond No [POLICY NO.]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

Specimen

PACIFIC FINANCIAL PRINTING

PHONE: 650-328-1500 • FAX: 650-328-3737
www.pfp.net